

INSTITUTO COSTARRICENSE DE ELECTRICIDAD
AND SUBSIDIARIES (GRUPO ICE)
(An autonomous institution of the Government of Costa Rica)

Consolidated Financial Statements

December 31, 2022

(With corresponding figures as of December 31, 2021)

(With Independent Auditors' Report thereon)



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Independent Auditors' Report

To the Board of Directors of
Instituto Costarricense de Electricidad

Opinion

We have audited the consolidated financial statements of Instituto Costarricense de Electricidad and Subsidiaries (Grupo ICE), which comprise the consolidated statement of financial position as of December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo ICE as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Grupo ICE in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Costa Rica and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter

Employee benefits:

We considered this area to be a key audit matter because it requires a significant degree of judgment and estimates in determining the actuarial and financial assumptions used to measure the post-employment benefits (severance) obligation and its impact on the presentation of Grupo ICE's consolidated financial statements.

Provisions and contingent liabilities

We considered this area to be a key audit matter mainly because the elements considered for the measurement, recording and disclosure of a provision or contingent liability involve a significant degree of judgment.

How the matter was addressed in our audit

Our audit procedures in this area included:

- Analyzing and evaluating the appropriateness of actuarial and financial assumptions used to measure the employee benefits (severance) obligation in the actuarial study performed by Grupo ICE, including the comparison of key assumptions with external data and the analysis of personnel statistics. The foregoing was performed with the support of our actuarial expert.
- Performing testing to establish the completeness and accuracy of the databases used in the actuarial calculation of post-employment benefits.
- With the support of our specialist, verify the reasonableness of the calculation of the post-employment benefits liability and the effects on the consolidated financial statements.

Our audit procedures in this area included:

- Requesting confirmation from ICE's external legal counsel regarding the entity's current lawsuits, and assessing whether the accounting treatment is in conformity with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- Obtaining a breakdown of the legal cases filed against Grupo ICE and managed by the in-house legal counsel, and identifying the estimated amount and the probability of outflow of resources.
- For a sample of selected cases, verifying the files, inquiring from the in-house counsel the status of the proceedings and the probability of an outflow of resources. Based on the foregoing, assessing whether the accounting treatment is in conformity with IAS 37.
- Involving our legal specialist to assess the probability of a favorable outcome for Grupo ICE in claims where it is a defendant, namely for those selected by the auditor since they are considered relevant due to the amount of the claim.
- Reconciling the disclosures included in the notes with the accounting records.

The key audit matter

Application of IFRS 9 – Financial Instruments

We considered this area to be a key audit matter mainly due to the impact of the application of this standard on the classification, measurement and presentation of the portfolio of investments in financial instruments and on the calculation of expected losses due to impairment of notes and accounts receivable.

How the matter was addressed in our audit

Our audit procedures in this area included involving a specialist to:

- Obtaining an understanding and reviewing the methodology used to calculate the allowances for impairment of notes and accounts receivable and assessing whether the methodology is in conformity with IFRS 9.
- Perform a recalculation of the loss allowances for impairment of notes and accounts receivable.
- Obtaining an understanding of the business model used to manage the financial instruments portfolio; analyzing the historical movement of sales and the maturity of those investments; and based on the foregoing, assessing the adequate classification of those investments according to the classification criteria established in IFRS 9.
- Analyzing the considerations used by management to determine whether cash flows are “solely payments of principal and interest” (SPPI).
- Analyzing ICE’s methodology to measure the allowance for impairment of investments to determine whether it is consistent with the guidelines of IFRS 9, and recalculating the allowance for impairment of the investment portfolio.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Grupo ICE's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Grupo ICE or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Grupo ICE's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo ICE's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Grupo ICE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Grupo ICE to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Grupo ICE to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

April 27, 2023

San José, Costa Rica
 Randall Mora Acuña
 Member No. 2429
 Policy No. 0116-FIG-7
 Expires 09/30/2023

Nombre del CPA: RANDALL MORA ACUÑA
 Cédula: 012
 Oficina: 100000000
 Nombre del Cliente:
 Nombre del Cliente:
 Electrónico y Subscripción:
 Usuario Registrado:
 Identificación del cliente:
 Dirección:
 Usuario Terminal:
 Fecha:
 Tipo de trabajo:
 Hora de salida:
 También de \$1000 de la Ley 9693 abonado y cancelado en el original.



¢1,000 digital tax stamp paid pursuant to Law No. 6663

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES
(San José, Costa Rica)

Consolidated Statement of Financial Position
(In millions of colones)

As of December 31,

<u>Assets</u>	Note	2022	2021
Non-current assets:			
Property, plant and equipment, net	8	5,007,262	5,223,272
Intangible assets, net	9	93,566	97,446
Other assets		8,338	11,919
Equity investments	10	5,727	7,831
Notes and other accounts receivable, net	11	177,230	179,172
Investments in financial instruments	12	359,764	325,458
Total non-current assets		5,651,887	5,845,098
Current assets:			
Inventories	13	55,379	34,823
Notes and other accounts receivable, net	11	65,030	52,360
Investments in financial instruments	14	191,429	121,634
Trade receivables, net	15	175,028	173,218
Prepaid expenses		5,870	7,820
Other assets		146	669
Cash and cash equivalents	16	338,778	429,632
Assets held for sale		616	70
Total current assets		832,276	820,226
Total assets	¢	6,484,163	6,665,324
<u>Liabilities and equity</u>			
Equity:			
Paid-in capital	¢	155	155
Reserves		2,469,080	2,323,529
Retained earnings		328,297	306,908
Equity attributable to owners of Grupo ICE		2,797,532	2,630,592
Non-controlling interests		6,130	5,769
Total equity		2,803,662	2,636,361
Liabilities:			
Non-current liabilities:			
Bonds payable	17 (a)	799,241	923,371
Loans payable	17 (b)	1,356,137	1,460,736
Lease liabilities	17 (c)	270,342	353,118
Employee benefits	19	450,866	468,742
Accounts payable	20	153,626	153,339
Contract liabilities	21	61,769	65,758
Deferred income - Government grants		20,717	16,453
Deferred tax liabilities	29	81,492	89,033
Provisions	22	3,799	2,338
Total non-current liabilities		3,197,989	3,532,888
Current liabilities:			
Bonds payable	17 (a)	74,457	88,859
Loans payable	17 (b)	92,331	114,556
Lease liabilities	17 (c)	62,832	44,131
Employee benefits	19	98,570	93,124
Accounts payable	20	84,203	92,422
Contract liabilities	21	10,271	10,508
Deferred income - Government grants		281	281
Accrued interest payable		25,881	19,969
Provisions	22	23,768	4,455
Other liabilities	23	9,918	27,770
Total current liabilities		482,512	496,075
Total liabilities		3,680,501	4,028,963
Total equity and liabilities	¢	6,484,163	6,665,324

The accompanying notes are an integral part of the consolidated financial statements.

Harold Cordero Villalobos
General Manager

Kenneth Arce Guerrero
Financial Manager

Lizbeth Hernández Castillo
Accounting Director

Ced. 400004213902
INSTITUTO COSTARRICENSE DE ELECTRICIDAD
Abreviatura: INE INSTITUTO COSTARRICENSE DE ELECTRICIDAD
Registro Profesional: 13537
Contador: HERNANDEZ CASTILLO LIZBETH
Estado de Situación Financiera
2022-02-22 10:02:44 -0800



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VERIFICACION: EH218KH
<https://timbres.contador.co.cr>

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES
(San José, Costa Rica)

Consolidated Statement of Profit or Loss and Other Comprehensive Income
(In millions of colones)

For the year ended December 31,

	Note	2022	2021
Revenue	25	¢ 1,388,910	1,293,641
Operating costs:			
Operation and maintenance		469,590	492,555
Operation and maintenance of leased assets		70,725	44,596
Purchases and supplemental services		118,047	118,968
Selling expenses		80,757	64,096
Production management		96,945	89,703
Total operating costs	26	836,064	809,918
Gross profit		552,846	483,723
Other income	27	68,025	39,802
Operating expenses:			
Administrative expenses		98,881	121,752
Selling expenses		123,144	128,837
Preliminary studies		21,444	23,609
Supplemental expenses		18,345	11,340
Loss on impairment of balances receivable	26 y 30	10,266	10,999
Other expenses		45,912	43,075
Total operating expenses	26	317,992	339,612
Operating profit		302,879	183,913
Finance income (costs):			
Finance income		35,266	33,378
Finance costs		(240,135)	(248,898)
Foreign exchange differences, net		88,669	(61,840)
Net finance costs	28	(116,200)	(277,360)
Share of profit of equity-accounted investees	10	(49)	47
Net profit (loss), before tax		186,630	(93,400)
Income tax	29	4,389	367
Net profit (loss)		¢ 191,019	(93,033)
Other comprehensive income:			
Items that will not be reclassified to profit or loss for the year:			
Effect of actuarial gain (losses) for the year		¢ 11,355	(85)
Items that are or may be reclassified subsequently to profit or loss for the year:			
Valuation of investments in financial instruments at fair value		(32,945)	19,140
Valuation of equity investments at fair value		(2,072)	469
Other comprehensive income, net of tax		(23,662)	19,524
Total comprehensive income for the year		¢ 167,357	(73,509)
Profit (loss) attributable to:			
Owners of Grupo ICE		¢ 190,734	(92,863)
Non-controlling interests		285	(170)
Total comprehensive income (loss) attributable to:		¢ 191,019	(93,033)
Owners of Grupo ICE		¢ 166,997	(73,289)
Non-controlling interests		360	(220)
Total comprehensive income (loss) attributable to:		¢ 167,357	(73,509)

The accompanying notes are an integral part of the consolidated financial statements.

Harold Cordero Villalobos
General Manager

Kenner Arce Guerrero
Financial Manager

Lizbeth Hernández Castillo
Accounting Director

Céd. 400004213902
INSTITUTO COSTARRICENSE DE
ELECTRICIDAD
Acreción INSTITUTO
COSTARRICENSE DE ELECTRICIDAD
Registro Profesional: 13327
Contador: HERNANDEZ CASTILLO
LIZBETH
Estado de Resultados Integral
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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES
(San José, Costa Rica)

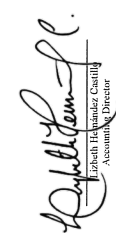
Consolidated Statement of Changes in Equity
(Continued in Colones)

For the year ended December 31,

Note	Paid-in capital	Legal reserve	Project development reserve	Actuarial gains (losses)	Valuation of equity investments at FVOCI	Reserves			Capital reserve	Unrealized profit from the capitalization of investment in subsidiary	Retained earnings		Equity attributable to owners of Grupo ICE	Non-controlling interests	Total equity
						Development reserve	Development reserve	Capital reserve			Retained earnings on subsidiaries	Profit (loss) for the year			
€	155	3,229	71	(16,990)	1,032	(10,654)	2,331,076	13,016	62,380	2,384,278	319,271	(80,414)	2,702,864	5,989	2,708,793
	-	-	-	-	-	-	-	-	-	-	(12,449)	(80,414)	(92,863)	(170)	(93,033)
	-	-	-	-	-	21,189	(21,189)	-	-	-	-	-	-	-	(85)
19	-	-	-	(57)	-	19,400	-	-	-	(57)	-	-	19,343	-	19,343
10	-	-	-	-	471	-	-	-	-	471	-	-	471	(2)	469
	-	-	-	-	-	42,329	(21,189)	-	-	-	(12,449)	(80,414)	(72,369)	(230)	(72,599)
	-	-	-	-	-	-	(80,414)	-	-	-	(14)	80,414	77	-	77
	-	-	-	-	-	-	2,228,072	-	-	-	306,098	20,214	2,454,384	-	2,454,384
	155	3,229	71	(17,043)	1,503	31,665	2,228,072	13,101	62,380	2,324,529	306,098	20,214	2,650,839	5,729	2,656,568
	-	-	-	-	-	-	-	-	-	-	22,649	168,085	190,734	285	191,019
19	-	-	-	11,278	-	(32,945)	-	-	-	11,278	-	-	11,278	77	11,355
10	-	-	-	-	(2,070)	-	-	-	-	(2,070)	-	-	(2,070)	(2)	(2,072)
	-	-	-	11,278	(2,070)	-	-	-	-	9,208	22,649	168,085	190,734	360	191,094
	-	1,018	-	-	-	-	-	185	-	1,203	(1,203)	-	(1,203)	-	(6)
	-	-	-	-	-	-	-	-	-	-	(57)	-	(57)	1	(56)
	-	1,018	-	(5,755)	-	-	16,885	185	-	16,885	(1,203)	-	16,682	1	16,683
	155	4,257	71	-	(507)	(1,250)	2,390,159	13,286	62,380	2,469,809	358,297	(168,085)	2,759,921	6,130	2,806,051


 General Manager


 Financial Manager


 Accounting Director



TIMBRE 300 € COLONES

The accompanying notes are an integral part of the consolidated financial statements.

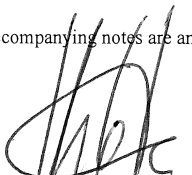
INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES
(San José, Costa Rica)

Consolidated Statement of Cash Flows
(In millions of colones)


For the year ended December 31,

	Note	2022	2021
Cash flows from operating activities			
Profit (loss) for the year	¢	191,019	(93,033)
Adjustments for:			
Depreciation	8	320,155	319,264
Amortization	9	24,540	23,583
Amortization of contract liabilities	25 (c)	(5,667)	(6,603)
Net realizable value of inventories	13	2,017	1,819
Net finance costs	28	204,869	215,520
Loss on impairment of balances receivable	26,30	10,266	10,999
Share of profit of equity-accounted investees, net of tax	10	49	(47)
Loss on disposal of assets	8,9,26	19,744	21,666
Obligations for employee benefits	19	(2,367)	18,488
Income tax	29	(4,389)	(367)
Foreign exchange differences	28	(71,977)	51,374
		<u>688,259</u>	<u>562,663</u>
Changes in:			
Notes and other accounts receivable		(9,393)	21,808
Trade receivables		(10,899)	(8,056)
Inventories		(13,411)	10,346
Accounts payable		(7,932)	(37,011)
Contract liabilities		1,441	7,466
Employee benefits and other provisions		(208)	(35,044)
Other liabilities		(16,365)	2,290
Cash flows from operating activities		<u>631,492</u>	<u>524,462</u>
Income taxes paid		<u>(3,165)</u>	<u>(8,248)</u>
Net cash from operating activities		<u>628,327</u>	<u>516,214</u>
Cash flows from investing activities			
Interest received		21,141	9,763
Investments in financial instruments		(175,948)	60,586
Additions to property, plant and equipment		(106,396)	(76,649)
Gains on the sale of property, plant and equipment	8,9	335	40
Additions to intangible assets		(14,340)	(15,104)
Government grants received		4,264	1,249
Other assets		4,980	4,256
Net cash used in investing activities		<u>(265,964)</u>	<u>(15,859)</u>
Cash flows from financing activities:			
Increase in bonds payable	17 (d)	-	268,684
Amortization of bonds payable	17 (d)	(95,182)	(398,957)
Increase in loans payable	17 (d)	102,492	248,859
Amortization of loans payable	17 (d)	(171,509)	(252,534)
Amortization of lease liabilities	17 (d)	(53,345)	(41,258)
Interest paid	17 (d)	(218,981)	(217,726)
Net cash used in financing activities		<u>(436,525)</u>	<u>(392,932)</u>
Net decrease (increase) in cash and cash equivalents		<u>(74,162)</u>	<u>107,423</u>
Cash and cash equivalents at beginning of year		429,632	311,743
Effect of movements in exchange rates on cash held	28	(16,692)	10,466
Cash and cash equivalents at end of year	16 ¢	<u>338,778</u>	<u>429,632</u>

The accompanying notes are an integral part of the consolidated financial statements.


Harold Cordero Villalobos
General Manager


Keiner Ace Guerrero
Financial Manager


Lizabeth Hernandez Castillo
Accounting Director

Céd. 40004213902
INSTITUTO COSTARRICENSE DE ELECTRICIDAD
Asociación INSTITUTO COSTARRICENSE DE ELECTRICIDAD
Registro Profesional: 13537
Contador: HERNANDEZ CASTILLO LIZBETH
Estado de: Firma de Electrica
2013-01-22 10:09:09 -0000



TIMBRE 300.0 COLONES

VERIFICACION: EF20KXKH
<https://timbres.contador.ec.cr>

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (In millions of colones)

December 31, 2022

Note 1. Reporting entity

Instituto Costarricense de Electricidad and Subsidiaries (Grupo ICE) [Costa Rican Electricity Institute] is an autonomous Costa Rican entity organized under the laws of the Republic of Costa Rica, through Decree Law No. 449 of April 8, 1949 and Law No. 3226 of October 28, 1963. Its main address is Sabana Norte, Distrito Mata Redonda, San José, Costa Rica.

Grupo ICE is a group of State-owned companies, composed of Instituto Costarricense de Electricidad (ICE, parent company and ultimate controlling entity) and its subsidiaries Compañía Nacional de Fuerza y Luz, S.A. (CNFL), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA), Cable Visión de Costa Rica, S.A. (CVCR) and Gestión Cobro Grupo ICE S.A., all organized under the laws of the Republic of Costa Rica.

ICE's primary activity is the development of energy producing sources, including the supply of electricity and telecom services. For electricity services, ICE has the exclusive right to generate, transmit and distribute electricity in Costa Rica, with limited exceptions to private companies, municipal entities and rural cooperatives. For telecom services, ICE holds a concession to develop and promote telecommunications services in Costa Rica, offering a wide range of services for sectors related to individuals, homes and companies, including fixed and mobile telephone services, both for voice and data. Fixed services include traditional landline services, public phones, internet access and television. Mobile services include prepaid and postpaid voice and data services.

Mobile telephone services (prepaid and postpaid voice and data), fixed telephone services (including dedicated lines), internet access and public and international telephone services are regulated by Superintendencia de Telecomunicaciones (SUTEL) [Office of the Superintendent of Telecommunications]. Electricity services are regulated directly by Autoridad Reguladora de los Servicios Públicos (ARESEP) [Costa Rican Public Utilities Regulatory Authority].

The main activities of the subsidiaries are as follows:

- Compañía Nacional de Fuerza y Luz, S.A.

Compañía Nacional de Fuerza y Luz, S.A. (CNFL) was organized through Law No. 21 of April 8, 1941. Its main activity is the distribution of electricity in the metropolitan area of San José and some adjoining cantons in Alajuela, Heredia and Cartago provinces. All of these services are regulated by ARESEP. CNFL has issued debt securities and is subject to the regulations established by Consejo Nacional de Supervisión del Sistema Financiero (CONASSIF) [National Financial System Oversight Board] and Superintendencia General de Valores (SUGEVAL) [Office of the Superintendent General of Securities].

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

- Radiográfica Costarricense, S.A.

Radiográfica Costarricense, S.A. (RACSA) was organized on July 27, 1964. Its main objectives are the development of telecommunications services in Costa Rica, national connectivity and the internet, international connectivity for data and video transmission, and other.

- Compañía Radiográfica Internacional Costarricense, S.A.

Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA) was organized through Law No. 47 of July 25, 1921. Its main objective is the development of the wireless communication concession. CRICSA currently does not have employees because Grupo ICE provides its accounting and administrative services.

- Cable Visión de Costa Rica, S.A.

Cable Visión de Costa Rica, S.A. (CVCR) was organized on January 19, 2001 and acquired on December 5, 2013. Its main activity was providing cable television services; subsequently, the subsidiary added internet and digital signal services to the services offered.

As established in the agreement reached by Grupo ICE's board of directors in the ordinary meeting of January 14, 2019, CVCR assigned its rights and obligations to ICE in order to guarantee continuity and the quality of telecom and internet services provided by the cable company and to strengthen its offer, which entered into effect on September 1, 2019. Consequently, as of that date, the rights and obligations were transferred to ICE (the parent company).

As of December 31, 2022, Cable Visión de Costa Rica has no commercial activities.

- Gestión Cobro Grupo ICE, S.A.

Gestión Cobro Grupo ICE, S.A. was organized through board of director's agreement No. 6198 dated October 31, 2016; it began operations in October 2017. Its main activity is providing administrative collection and legal collection management services in connection with balances receivable from the commercial activities of the entities of Grupo ICE.

The activities of ICE and its subsidiaries are also regulated by Contraloría General de la República (CGR) [Comptroller General of the Republic], SUGIVAL, Bolsa Nacional de Valores de Costa Rica, S.A. [Costa Rican National Stock Exchange], the General Directorate of National Accounting of the Ministry of Finance, and the Ministry of Environment and Energy (MINAE).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Note 2. Basis of accounting

The consolidated financial statements of Grupo ICE have been prepared in accordance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the board of directors on April 25, 2023.

Grupo ICE's accounting policies are detailed in Note 6.

Note 3. Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following items, which are measured on an alternative basis:

<i>Item</i>	<i>Measurement basis</i>
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Debt and equity instruments at fair value through other comprehensive income	Fair value
Net defined benefit liability	Present value of the defined benefit obligation

Note 4. Functional and presentation currency

These consolidated financial statements are expressed in Costa Rican colones (¢), which is the monetary unit of the Republic of Costa Rica and Grupo ICE's functional currency.

All financial information contained herein is presented in millions of colones and has been rounded to the nearest unit, unless otherwise indicated.

Note 5. Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of Grupo ICE's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 8 – Establishment of useful lives of property, plant and equipment.
- Note 18 – Lease term: whether Grupo ICE is reasonably certain to exercise extension options.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties as of December 31, 2022, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 30 – Measurement of ECL allowance for trade receivables and contract assets: key assumptions in determining the weighted-average loss rate.
- Note 19 – Measurement of defined benefit obligations: key actuarial assumptions
- Note 31 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of economic resources.

(iii) Measurement of fair values

A number of Grupo ICE's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Grupo ICE has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Finance Manager.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to Grupo ICE's audit committee.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

When measuring the fair value of an asset or a liability, Grupo ICE uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Grupo ICE recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

Note 30 – Financial risk management includes additional information on the assumptions made when measuring fair values.

Note 6. Summary of significant accounting policies

Grupo ICE has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

The accounting policies have been consistently applied by all the entities of Grupo ICE.

(a) Consolidation policies**(i) Subsidiaries**

Subsidiaries are entities controlled by Grupo ICE. Grupo ICE ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The consolidated financial statements include the financial statements of ICE and its subsidiaries, as follows:

Subsidiaries	Country	Ownership interest	
		As of December 31,	
		2022	2021
Compañía Nacional de Fuerza y Luz S.A. (CNFL)	Costa Rica	98.6%	98.6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100.0%	100.0%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100.0%	100.0%
Cable Visión de Costa Rica, S.A. (CVCR)	Costa Rica	100.0%	100.0%
Gestión Cobro Grupo ICE, S.A.	Costa Rica	100.0%	100.0%

The subsidiaries are entities controlled by ICE (parent company). The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The accounting policies of those subsidiaries have been changed when necessary to align them with Grupo ICE's accounting policies, including the application of the corresponding accounting adjustments.

The financial statements of Instituto Costarricense de Electricidad (ICE) also include five structured entities, four of which are trusts in which it does not hold ownership interest (Fideicomiso Centro Empresarial Sabana, Fideicomiso Red Avanzada de Nueva Generación, Fideicomiso PT Garabito (finished in 2022) and Fideicomiso PH Reventazón) and one joint operation in which it has 50% ownership interest (Fideicomiso PH Toro III). These entities perform activities related to the lease of assets that were constructed solely for use in ICE's operations. All of the entities are domiciled in the Republic of Costa Rica.

(ii) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in Grupo ICE's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of control

When Grupo ICE loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained by Grupo ICE in the former subsidiary is measured at fair value when control is lost.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of Grupo ICE's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(v) Interests in equity-accounted investees

Grupo ICE recognizes as investments in associates those investments where it has significant influence but not control, when it holds, directly or indirectly through one of its subsidiaries, 20% or more of the voting power of the investee, unless it can be clearly demonstrated that such influence does not exist.

(vi) Joint operation (Fideicomiso PH Toro III)

Fideicomiso PH Toro III derives from an investment in the Toro III Hydroelectric Project made jointly by Grupo ICE and Junta Administrativa del Servicio Eléctrico Municipal de Cartago (Administrative Board of the Municipal Electricity Service of Cartago, JASEC). On March 9, 2006, ICE and JASEC subscribed a business partnership agreement for the design, financing, construction and joint operation of the Toro III Hydroelectric Project, whereby both entities hold equal participation (50% each) in respect of rights and obligations. To execute the project, in January 2008, ICE and JASEC subscribed a trust agreement with Banco de Costa Rica, whereby ICE and JASEC act as trustors and beneficiaries and Banco de Costa Rica as the trustee. One of the responsibilities of the trustee was obtaining financing and managing the funds for the development of the infrastructure necessary to generate electricity and which will be subsequently leased to ICE and JASEC. The project will be constructed under the engineering and construction agreement subscribed by ICE. The trust agreement is for a term of 30 years. Pursuant to the terms and conditions of the partnership agreement, a number of responsibilities managed by mutual agreement are defined.

On January 26, 2012, ICE and JASEC subscribed an addendum to the trust agreement, whereby they commit to provide at least 20% of the funds necessary to finance the Toro III Hydroelectric Project, so that the trust obtains the funds necessary to finance the remaining portion. Accordingly, ICE made a contribution in kind (construction materials and labor) equivalent to ¢11,203. This contribution represents 10% of the funds necessary to finance the Toro III Hydroelectric Project. The remaining 10% was provided by JASEC.

When part of a joint venture (joint ventures or joint operation), Grupo ICE will assess whether the arrangement grants joint control of the arrangement to all parties or a group of parties. Joint control exists when the parties sharing control must act jointly to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

When all parties or a group of parties are determined to control the arrangement collectively, joint control exists provided that decisions about the relevant activities require the unanimous consent of the parties sharing control.

Grupo ICE records investments classified as investments in associates and joint ventures, under the equity method. The initial recognition of the investment in an associate or joint venture is recognized at cost and the carrying amount is increased or decreased (as a consolidation adjustment in Grupo ICE's financial statements) to recognize Grupo ICE's share in the investee's profit or loss after the date of acquisition. Grupo ICE's share in the investee's profit or loss is recognized in Grupo ICE's profit or loss for the year. Distributions received from the investee reduce the carrying amount of the investment.

In its consolidated financial statements, Grupo ICE will interrupt its use of the equity method from the date when its investment is no longer an associate or a joint venture and it shall apply the corresponding policies.

If an associate or joint venture applies accounting policies other than the policies adopted by Grupo ICE, to transactions and other similar and relevant events occurring in similar circumstances, adjustments will be applied to the financial statements of the associate or joint venture remitted to Grupo ICE, which it uses to apply the equity method in its consolidated financial statements, so as to align the accounting policies of the associate or joint venture with its own.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of Grupo ICE at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedges are effective are recognized in other comprehensive income.

(c) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when Grupo ICE becomes a party to the contractual provisions of the instrument.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without no component is initially measured at the transaction price.

(ii) Classification and subsequent measurement*Financial assets*

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless Grupo ICE changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, Grupo ICE may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (if any). On initial recognition, Grupo ICE may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Financial assets – Business model assessment

Grupo ICE makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to Grupo ICE’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the continuing recognition of the group of assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Grupo ICE considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, Grupo ICE considers:

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit Grupo ICE’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, see Note 6 (v) for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*Financial liabilities – Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

See Note 6 (v) for financial liabilities designated as hedging instruments.

*(iii) Derecognition**Financial assets*

Grupo ICE derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
 - Grupo ICE neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

Grupo ICE derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Grupo ICE also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Grupo ICE currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(v) Derivative financial instruments

Grupo ICE holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivative financial instruments are measured at fair value through profit or loss, not through hedge accounting.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are generally recognized in profit or loss.

Grupo ICE designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates.

At inception of designated hedging relationships, Grupo ICE documents the risk management objective and strategy for undertaking the hedge. Grupo ICE also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Grupo ICE books derivative financial instruments using hedge accounting, for which the requirements detailed by the policy must be met; otherwise, hedge accounting cannot be applied, even if the derivative instrument was obtained for hedging purposes.

Fair value hedges:

If a fair value hedge meets the criteria for recognition as such during the period, it will be booked as follows:

- Changes in the fair value of the hedging derivative, measured at a specific date, according to the agreed conditions and market conditions, are recognized in profit or loss for the year.
- Changes in the fair value of the hedged item that are attributable to the hedged risk are booked as an adjustment to the carrying amount of the hedged item and recognized in profit or loss for the year. This will apply even if the hedged item is measured at cost.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, then hedge accounting is discontinued prospectively. However, the substitution or successive renewal of a hedging instrument by another is not considered an expiry or termination if it is part of the documented hedging strategy and the risk management goal of the hedging does not change; thus, hedge accounting is not discontinued. The policies specified in designing and documenting the hedge relationship will be in agreement with the objectives and procedures followed by Grupo ICE to manage risk and will not be changed arbitrarily. Changes will otherwise be justified on the basis of fluctuations in market conditions and other factors and will be based on, and in agreement with, the objectives and procedures followed by Grupo ICE in managing risk.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Cash flow hedges:

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss for the period.

Grupo ICE will discontinue cash flow hedge accounting prospectively in any of the following circumstances:

- If the hedging derivative expires or is sold, terminated or exercised (the substitution or successive renewal of a hedging instrument by another is not considered an expiry or termination if it is part of the documented hedging strategy and the risk management goal of the hedging does not change). In this case, the accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.
- If the hedge no longer meets the criteria for hedge accounting. In this case, the accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.
- The transaction is not expected to occur, in which case any accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, are reclassified from equity to the consolidated statement of profit or loss and other comprehensive income as a reclassification adjustment; the derivative will be also liquidated, affecting the corresponding accounts for valuation of the financial instrument, banks and gains or losses in the statement of profit or loss due to disposal of the instrument.

(d) Asset policies**Property, plant and equipment****(i) Recognition and measurement**

Items of property, plant and equipment are measured at historical cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Property, plant and equipment include the following asset classifications:

Operating assets and other operating assets

Fixed and controlled assets that are used mainly in the production and supply of electricity and telecom services that are not intended for sale are recognized as “Operating assets and other operating assets.” Assets used in administrative and operating activities and expected to be used for more than one accounting period are booked as “Other operating assets”.

Right-of-use assets

Right-of-use assets are assets related to a contract that is, or contains, a lease.

The right-of-use asset is initially measured at cost, which comprises:

- a) the amount of initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) any initial direct costs incurred by Grupo ICE; and
- d) an estimate of costs to be incurred by Grupo ICE in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Grupo ICE may incur the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Grupo ICE has elected to not recognize right-of-use assets and lease liabilities for low-value leases and short-term leases. Grupo ICE recognizes lease payments for those leases as an expense on a straight-line basis over the lease term.

Right-of-use assets are presented in property, plant and equipment according to their use and nature.

Construction work in progress

Assets under construction that are expected to be incorporated into operating assets and used in administrative activities or to support the production and delivery of electricity and telecommunications services are booked by Grupo ICE as “Construction work in progress.”

“Construction work in progress” is booked at construction cost (cost of purchase of materials, parts, etc.), plus any other costs related to their development, provided that they can be identified and reliably measured.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Borrowing costs directly attributable to the acquisition and construction of assets are capitalized as long as it is probable that future economic benefits will arise. The commencement date for capitalization is the date when Grupo ICE first meets all of the following conditions: a) it incurs expenditures for the asset, b) it incurs borrowing costs and c) it undertakes activities that are necessary to prepare the asset for its intended use. The capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. Borrowing costs are no longer capitalized and are expensed to the period when construction work is interrupted, if this interruption extends significantly.

Foreign exchange differences arising from bank loans and accounts due to suppliers, acquired for construction work in progress are not capitalized during the execution of the works.

Costs incurred by the support and technical support areas of the entity's segments that are directly related to construction and can be reliably measured, but are not directly allocated to the works, are identified with the cost center "Production management costs for construction work in progress". These costs are allocated on a monthly basis to construction work in progress, as appropriate.

In the development or construction of works for the Electricity or Telecom Segments, obligations may arise related to restoration, disposal and similar costs. These costs are estimated based on a formal closing plan and are subject to annual reviews by the responsible areas. Grupo ICE may consider any other actions performed by management, which have created a valid expectation of making an investment, before third parties to whom it must comply with its commitments or responsibilities.

If a decision is made to suspend a construction project, the costs recognized as assets as of that date should be expensed to the period, provided that they are not expected to generate future economic benefits.

Inventory for investment

The cost of physical goods in stock that will be used in the construction of productive assets, as well as in-transit inventory for investment, according to Incoterms, when all the risks and rewards arising from such assets have been transferred to Grupo ICE for use in activities inherent to productive assets, is booked as "Inventory for investment."

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventory for investment is measured at cost.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to Grupo ICE. Additions, improvements or reconstruction are considered subsequent expenditure, which should be valued by the corresponding technical areas of Grupo ICE in order to determine whether they increase the asset's useful life with the purpose of revising the depreciation calculation.

(iii) Depreciation

Components of operating assets, except land, are depreciated using the straight-line method when they are brought to the location and condition necessary for use, based on their estimated useful life and that of each significant part, where applicable. Other operating assets such as construction equipment, transport equipment, machinery and maintenance equipment used for provision of services and for project execution, whose depreciation does not correspond to a regular and uniform amount but to a variable cost based on use (hours, kilometers, or days), categorized as "machinery, equipment and vehicles depreciated by use", are depreciated using the units of production method, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The selected method is applied consistently in all periods, unless there is a change in the expected pattern of consumption of the future economic benefits.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Grupo ICE by the end of the lease term or the cost of the right-of-use asset reflects that Grupo ICE will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

To determine the useful life of each asset or group of depreciable assets, the technical areas defined by the segments must document the process performed to determine the useful life of each asset, taking into account the following:

- the estimated period during which the depreciable asset will be used in production;
- specifications provided by the engineer or specialized technical personnel of the useful life of the depreciable asset, if it was acquired recently;
- expectations of the engineer or specialized technical personnel, regarding the future use of the depreciable asset and its remaining expected useful life;
- expected natural impairment;
- technical or commercial obsolescence derived from changes or improvements in production, or a change in the demand of the products generated by the asset;
- legal limits or restrictions on the use of the asset, and

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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- any other event or development that has an effect on the future use of the asset, such as changes in regulations that may reduce or make obsolete the plant and existing equipment in the foreseeable future.

Useful lives are reviewed at each reporting date to identify possible differences with the useful lives established at the review date. If a change in the useful lives is required in accordance with the analysis performed, a change must be made in the estimate, with a prospective effect, from the date on which the difference was identified.

Operating assets and other operating assets that completed their assigned useful lives and are still in use in the normal operations of Grupo ICE should be kept in the asset system database for control purposes. However, depreciation calculations should be suspended.

Each part of an item of property, plant and equipment will be separately depreciated when:

- It has a cost that is significant in relation to the total cost of the item.
- It has different patterns of consumption of future economic benefits or different useful lives.
- It has regular, significant, capitalizable inspections. Each time a new inspection is carried out, the former component must be derecognized and the current component recognized (if it has an accounting balance)
- It corresponds to the purchase of land and a building together since these assets are separate assets, where, with some exceptions, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets.
- It corresponds to land, the cost of which includes the cost of dismantling, removal and restoration. The value of restoration will be depreciated over the period during which benefits were obtained by incurring those costs.

Additions, improvements, or reconstructions must be valued by the competent technical areas of Grupo ICE to determine whether they increase the useful life of the asset and to reassess the depreciation calculation or depreciate them over the remaining life of the asset under consideration.

Depreciation of the operating assets begins on the acquisition or installment date when the assets are available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by Grupo ICE.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle unless the asset is fully depreciated or its depreciation method depends on the asset's use.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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Significant spare parts and replacement equipment are depreciated from the date that they are in the location and condition necessary for immediate use, i.e. in the location and condition necessary to operate in the manner intended by Grupo ICE. To the extent that they are installed as part of operating assets, the lower of the useful life of the equipment or the useful life of the main asset shall be used, assuming that the asset cannot be disposed and used in another asset. If the asset to which it is related will be replaced at the end of its useful life and the asset can be used for the replacement equipment, a longer depreciation period may be used.

Intangible assets*(i) Recognition and measurement*

Assets without a physical substance that are expected to be used for more than one accounting period, or indefinitely, for administrative activities or activities other than normal operations are booked as “Intangible assets”.

According to this policy, intangible assets are as follows:

- licenses, systems and applications
- rights of way or easements on land
- rights of use or rights of traffic related to submarine cable (submarine fiber optic infrastructure).

Intangible assets acquired from third parties with finite useful lives are valued at cost of purchase, plus any costs directly attributable to preparation of the asset for its intended use, less accumulated amortization and any accumulated impairment losses.

Rights of way or easements and rights of use of submarine cable are recorded from the date the agreement is signed, at the amount agreed by Grupo ICE and the landowner, the submarine cable owner and the submarine fiber optic infrastructure owner.

In the case of internally developed intangible assets, Grupo ICE classifies production of the asset into the following:

- research phase
- development phase.

Expenditure on research activities is recognized in profit or loss when it is incurred.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and Grupo ICE intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generate goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Grupo ICE amortizes intangible assets for software licenses, applications and systems, and rights of use of submarine cable according to the term established in the agreement or the legal right with respect to those assets, on a straight-line basis. This term may be shorter, as defined by Grupo ICE regarding the expected use of the assets, or longer, if the rights are transferred for a limited term that may be renewed. Therefore, the useful life may include the renewal period(s), provided that there is evidence that the renewal has no significant cost for Grupo ICE. Grupo ICE assigns a useful life of three years to intangible assets for software licenses, applications and systems, for which no evidence exists of contractual or legal rights for their use and, also, when the responsible area has no supporting information on the assets' useful lives.

The systematic allocation of the amortization of such assets is booked by Grupo ICE as "Amortization-intangible assets" over the established term, starting on the date that the asset is available for use, using the straight-line method.

Rights of way or easements on land acquired with an indefinite useful life, i.e. when a defined term is not distinguishable but rather a permanent use in which the asset generates benefits to Grupo ICE, are not amortized.

The rights of way or easement on land agreements that are acquired for a definite term must be amortized over the term of the agreements in which they generate benefits to Grupo ICE. In the event that such agreements are renewable, that fact must be taken into account when determining the useful life of the right of way or easement.

Intangible assets that have reached their assigned useful lives and are still in use should be kept in the asset system database for control purposes. Amortization calculations should be suspended.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Equity investments (investments in subsidiaries, joint operations and others)**

The cost of financial instruments acquired to obtain ownership interest, significant influence or control in related parties such as subsidiaries, joint ventures, associates, joint operations and other investments, is booked as “Equity investments”.

Investments in subsidiaries are consolidated in the financial statements of Grupo ICE.

Investments in associates and joint ventures are measured under the equity method and presented in Grupo ICE’s consolidated financial statements.

Investments in joint operations are consolidated proportionally, recognizing Grupo ICE’s share, as investor, of the assets, liabilities, revenues and expenses of the investee.

Other investments are recorded at fair value through other comprehensive income.

Notes and other accounts receivable

Notes receivable are booked at the value of the note receivable, which is the amount due from the debtor at maturity according to the agreed terms. That value is maintained for the entire term and until notes receivable are recovered.

Notes and other accounts receivable are derecognized when the rights are extinguished or transferred.

Loans that exceed one accounting period are presented as non-current assets, while the portion of notes and other accounts receivable expected to be recovered within the following year is booked under current assets.

Investments in financial instruments

Investments in debt instruments such as term certificates of deposit, foreign debt bonds, among others, are classified as “Investments in financial instruments”.

Investments in financial instruments are initially measured at fair value. Subsequently, they are measured at fair value or amortized cost, depending on the business model under which they have been classified.

Premiums or discounts and transaction costs are booked as part of financial instrument assets and liabilities. They are subsequently recognized in the consolidated statement of profit or loss using the effective interest method, during the time that economic benefits are expected to be received from the assets or during the term of the liabilities.

Investments in financial instruments are derecognized when the rights are extinguished.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Inventories**

“Inventories” include the cost of the physical assets warehoused by Grupo ICE and inventory in-transit for operations, in accordance with Incoterms, when the risks and rewards of the assets are transferred to Grupo ICE, for use in activities inherent to the operation and maintenance of productive assets and for administrative or management purposes, or the cost of assets that are held for sale.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average and includes disbursements made to purchase inventories and other costs incurred in bringing the inventories to their present location and condition. Inventories in transit are measured at the specific invoiced cost, plus the estimated import costs (freight, insurance and taxes).

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined, or if the estimated costs of completion or sale have increased, considering the formula for determining the net realizable value. The practice of writing down inventories below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made as to the amount of inventories expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

A new assessment is made of net realizable value in each subsequent period. When the circumstances which previously caused inventories to be written down below cost no longer exist, or when a clear evidence of an increase in the net realizable value exists arising from a change in the economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

The balance of the allowance is periodically reviewed to ensure coverage of potential obsolescence or impairment.

Non-trade receivables

The right to demand payment from third parties for transactions other than the regular provision of Grupo ICE’s services are booked as “Non-trade receivables.”

These accounts receivable are initially measured at fair value, which is the amount due from the debtor to Grupo ICE at maturity and under the agreed terms. Subsequently, they are measured at amortized cost.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

“Non-trade receivables” are derecognized when the right to demand payment is exercised or when the accounts are written off against the allowance for loan losses due to non-payment.

Advance payments to creditors

The payments made to suppliers or creditors for materials or assets, for which the risks and rewards have not been transferred to Grupo ICE and have thus not been recognized as assets by Grupo ICE, are booked as “Advance payments.”

Trade receivables

The rights to demand payment from customers for electricity and telecom services are booked as “Trade receivables” and are measured at amortized cost less any impairment losses.

“Trade receivables” are booked at the amount receivable of the document underlying the transaction, which indicates the amount payable by the customer, due date and agreed terms, depending on the type of service.

Receivables for services rendered are derecognized when the right to demand payment is exercised, when the contractual rights to the cash flows from the asset are transferred, when the contractual rights to the cash flows from the asset expire, or when the accounts are written off against the allowance for impairment losses due to non-payment.

Prepaid expenses

The cost of expenditures for the future receipt of goods and services under agreements subscribed is booked as “Prepaid expenses”.

“Prepaid expenses” are booked at cost and amortized as the future economic benefits are consumed, which are derived from the use or consumption of fees paid.

Cash and cash equivalents

“Cash and cash equivalents” include:

- **Banks**: Cash deposited in checking accounts in both public and private, national or foreign financial entities and that will be used in ICE’s operations are booked as “Banks.”
- **Cash equivalents**: An investment is considered to be a cash equivalent if it is readily convertible into a specific cash amount and is subject to an insignificant risk of changes in its value; its maturity is three months or less from the acquisition date, provided there is no legal or constructive obligation to use those resources.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Impairment**

(i) *Non-derivative financial assets:*

Financial instruments and contract assets

Grupo ICE recognizes loss allowances for ECL on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets.

Grupo ICE measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, Grupo ICE considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Grupo ICE's historical experience and informed credit assessment, that includes forward-looking information.

Grupo ICE assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Grupo ICE considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to Grupo ICE in full, without recourse by Grupo ICE to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Grupo ICE considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. Grupo ICE considers this to be BBB or higher per Rating Agency Fitch Ratings or Baa or higher per Rating Agency Moody's Investors Service or its equivalent to any other risk rating agency.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which Grupo ICE is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted average of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that Grupo ICE expects to receive).

ECL are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, Grupo ICE assesses whether financial assets carried at amortized cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by Grupo ICE on terms that it would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for the financial asset because of financial difficulties.

Presentation of the allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognized in other comprehensive income.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*Write-off*

The gross carrying amount of a financial asset is written off when Grupo ICE has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, Grupo ICE follows the policy of writing off the gross carrying amount when the financial asset is declared uncollectible, according to Grupo ICE's bad debt policy, based on historical experience of recoveries of similar assets. Grupo ICE expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Grupo ICE's procedures for recovery of amounts due.

(ii) Non-financial assets

Grupo ICE reviews at each reporting date the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Intangible assets with indefinite useful lives are not amortized; they are annually tested for impairment, either individually or by CGU.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

(e) **Equity policies**

Composition of capital

According to Article 16 of the *Law Organizing the Entity*, ICE's capital comprises the following:

- National revenue that the law allocates and earmarks for ICE.
- Fees that the State acquired from the Municipality of San José under the local streetcar agreement.
- Any other government-owned asset transferred to ICE.
- The country's water resources that have been or will be declared national reserves and any retained earnings resulting therefrom.

Retained earnings

Grupo ICE's retained earnings are as follows:

(i) **Retained earnings of subsidiaries**

Profit or loss of the subsidiaries of ICE at each accounting year-end is booked as "Retained earnings from subsidiaries". Retained earnings are adjusted for the effects of changes in accounting policies and corrections of prior period errors.

Reserves

Grupo ICE's reserves include:

(i) **Legal reserve**

Pursuant to current regulations, the subsidiary CNFL must appropriate 5% of each year's net earnings to a legal reserve, up to 20% of outstanding ordinary share capital.

(ii) **Project development reserve**

At Ordinary Shareholders Meeting No. 97 held on April 30, 2001, the subsidiary CNFL established a "Reserve for project development." During that meeting, shareholders agreed to transfer retained earnings as of December 31, 2000, and dividends declared but not paid as of December 31, 1999 in the amount of ¢1,000, for purposes of maintaining an equity fund to finance working capital for projects under development.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(iii) Actuarial gains (losses)

Changes in assumptions used in the calculation of the present value of the obligations arising from post-employment benefits, such as demographic assumptions (mortality, turnover rates, disability and early retirements) and financial assumptions (discount rate), are recorded as “Actuarial gains and losses.”

(iv) Valuation of equity investments at FVOCI

Changes in fair value of equity investments that are designated as such on initial recognition are booked as “Valuation of equity investments at FVOCI”

(v) Valuation of non-derivative financial instruments and hedges

This account reflects the results of the valuations of financial instruments acquired by Grupo ICE, including cash flow hedges, as investments measured at fair value through other comprehensive income.

Such valuations are recognized in equity or profit or loss, depending on the business model under which each instrument is classified.

For hedges, the value of positive or negative discounted cash flows of financial instruments determined as effective hedges is recorded as “Valuation of financial instruments”.

The “Valuation of financial instruments” account is derecognized when the instrument matures, is traded or sold.

(vi) Equity reserve

The subsidiary RACSA has an equity reserve equivalent to 25% of its pre-tax income, in conformity with Law No. 3293 of June 18, 1964.

(vii) Development reserve

Profit or loss obtained at the end of each accounting period, which pursuant to Law No. 449 must be earmarked for development of electricity and telecom services, is recorded as “Development reserve”.

The development reserve is adjusted for the effects of changes in accounting policies and corrections of prior-period errors.

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Notes to the Consolidated Financial Statements
(In millions of colones)**(f) Liability policies****Bonds payable**

Obligations with third parties arising from the issue of debt securities (bonds) are booked under “Bonds payable”. These obligations are recognized at amortized cost based on the contracted debt.

The amortized cost of financial assets and liabilities includes premiums or discounts and transaction costs, which are realized in the consolidated statement of profit or loss using the effective interest method over the period in which economic benefits are expected to be obtained from such items or during the maturity term of the liabilities.

A partial or full decrease in bonds payable is recognized when Grupo ICE amortizes or settles any amount owed.

The portion of long-term securities expected to be settled within one year or less is booked as “Short-term bonds payable”.

Loans payable

Obligations with banking entities or financial institutions are recognized as “Loans payable”.

Loans payable are booked and measured at amortized cost, considering transaction costs, which are amortized using the effective interest method.

Grupo ICE reclassifies as current the portion of loans payable expected to be settled within one year or less and non-current debts enforceable in the short term due to noncompliance with covenants in accordance with the accounting policies for presentation of consolidated financial statements and events occurring after the reporting period. Therefore, the following is applicable:

- a) If Grupo ICE does not comply with a covenant and it has not received a waiver before the closing date of the financial statements and the waiver is not for at least the following 12 months, the total balance of the corresponding debt must be reclassified as short-term.
- b) If Grupo ICE obtains a waiver on that noncompliance on a date subsequent to the closing date of the financial statements, it must be disclosed as it is considered significant for the financial statements as a whole. However, this subsequent event does not exempt Grupo ICE from classifying the total debt as a short-term (enforceable) debt.

A partial or full decrease in loans payable is applied when the amount owed is amortized or settled.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Lease liabilities**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Grupo ICE's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- a. fixed payments, including in-substance fixed payments;
- b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c. amounts expected to be payable under a residual value guarantee; and
- d. the exercise price under a purchase option that Grupo ICE is reasonably certain to exercise, lease payments in an optional renewal period if Grupo ICE is reasonably certain to exercise an extension option and penalties for early termination of a lease unless Grupo ICE is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method, considering transaction costs, if any. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Grupo ICE's estimate of the amount expected to be payable under a residual value guarantee, if Grupo ICE changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Grupo ICE remeasures the lease liability (and makes the corresponding adjustment to the right-of-use asset) if and when:

- a. The lease term is modified or there is a significant event or change in the circumstances of the lease that results in a change in the assessment of the buy option, in which case the lease liability is measured by discounting the lease payments made using a revised discount rate.
- b. There is a change in future lease payments resulting from a change in an index, a rate or a change in the amounts expected to be payable under a residual value guarantee. In that case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used).
- c. A lease agreement is modified and the modification in the lease is not booked as a separate lease, in which case the lease liability is remeasured based on the modified lease term, discounting revised lease payments using a revised discount rate at the date when the modification becomes effective.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and right-of-use asset. Related payments are expensed in the period in which the event or condition that originate them occurs.

Obligations with lessors for the acquisition of assets (as right-of-use assets) for more than one accounting period are recognized as “Lease liabilities” in the non-current liabilities section. The portion of these obligations that is paid within one year or less is presented under current liabilities.

The decrease in lease liabilities is made partially or in full when Grupo ICE amortizes or settles the amount owed.

Grupo ICE has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Grupo ICE recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Employee benefits*(i) Defined benefit plans – severance benefits:*

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for Grupo ICE, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Grupo ICE determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. Grupo ICE recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

For permanent employees:

The estimated amount that Grupo ICE's management will require to pay severance benefits to its employees, whose existence is confirmed only by the occurrence of one or more uncertain events in the future, which are not entirely under Grupo ICE's control, is recorded as "Employee benefits."

The estimated amount required to pay severance benefits to employees, within one year or less, based on the result of an actuarial study of such a benefit, is recorded as a current provision for severance benefits.

The rules that Grupo ICE (except CNFL) applies to pay benefits due to the termination of the employment agreement (severance benefits) are based on the *Law to Strengthen Public Finances* (Law No. 9635). A pronouncement from Grupo ICE established that once the law entered into effect on December 4, 2018, employees with at least 12 years of service would have the right to receive up to a maximum of 12-year severance benefits. All other employees would have the right to receive up to a maximum of eight-year severance benefits. For the subsidiary CNFL, the severance benefit is 20 years, in conformity with the Board of Labor Relations Meeting No. 2149 of February 17, 2021.

For personnel hired under payroll modality established in Grupo ICE's Autonomous Labor Regulations (RAL), in no event shall such severance benefits be paid beyond the last eight years of employment.

The payment of severance benefits is calculated based on the date of incorporation into the public sector, provided that the following conditions are met:

- employment continuity, i.e. when the date of incorporation into Grupo ICE is continuous (in working days) with the date of incorporation into the public sector
- no dismissal occurred from the public institution where the employee worked before joining Grupo ICE
- no severance benefits were paid by the public institution where the employee worked previously.

For project employees:

Project employees are hired to execute projects developed by Grupo ICE and are terminated once the work is completed. To cover the employees' severance benefits, an accrual of 9% of the employees' monthly gross salary is recorded in profit or loss.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if Grupo ICE has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term benefits include:

Statutory Christmas bonus

Costa Rican legislation requires payment of one-twelfth of an employee's monthly salary for each month of service. The bonus is paid in December, even in the case of employee dismissal. Grupo ICE records a monthly provision to cover future disbursements related therewith.

Back-to-school bonus

ICE, RACSA and CNFL follow the policy of recording an accrual for payment of the back-to-school bonus. The bonus corresponds to a percentage calculated on the monthly salary of each employee and paid on an accrual basis in January of each year. The obligation related to this benefit is calculated based on 8.19% of pretax employee compensation and is paid to all employees regardless of whether they have children or school-age children.

The back-to-school bonus is an adjustment additional to the cost-of-living salary increase, to cover the costs of any school-related expenses.

Vacations

Grupo ICE grants vacations to all employees pursuant to the provisions of the *Labor Code* and Chapter XXVII of ICE's *Personnel Statute*, in accordance with the modality of their employment contracts. The number of days to be granted is defined based on the time of service at ICE or other public sector entities where the employee has previously worked. This benefit is considered a short-term benefit.

Grupo ICE books a vacation accrual based on the employee's years of service with ICE, as follows:

- between 1 and 5 years of service, an accrual of 4.17% of pretax compensation
- between 5 and 10 years of service, an accrual of 6.11% of pretax compensation
- over 10 years of service, an accrual of 8.33% of pretax compensation.

For project employees, the vacation accrual is calculated as 7.5% of each employee's pretax compensation.

Occupational hazard

Grupo ICE follows the policy of recording an accrual for the payment of occupational hazard insurance expenses. This obligation is calculated based on the percentage established by the insurance company on the total employee salary.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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Obligations arising from occupational hazards are liquidated through the payment made to the insurance company.

Accrued employer obligations are liquidated on an ongoing basis as the obligation is extinguished as a result of use or payment of benefits.

Accounts payable

Accounts payable are measured at the total amount payable under contractual obligations, which is equivalent to their amortized cost.

Prepaid income

Obligations arising from payments made in advance by customers for the rendering of services are recognized as "Prepaid income". Prepaid income decreases as the services are rendered and the corresponding income is recognized.

Government grants

Government grants related to assets are initially recognized as deferred income at fair value when there is reasonable assurance that they will be received and that Grupo ICE will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Within the framework of the Japanese initiative known as Cool Earth Partnership, the Government of Japan donated US\$10.5 million to Grupo ICE to build the Photovoltaic System located in Sabana Norte, with a power output of 3kW, which is expected to generate 3.5 kWh, and the Miravalles Solar Park, located in La Fortuna de Bagaces, with a power output of 1 MW, which is expected to generate 1.2 GWh. In addition, funds from the Project and Program Management Trust of Fondo Nacional de Telecomunicaciones (FONATEL) are recorded. This trust directly subsidizes the rendering of voice and internet bandwidth services to public service centers in the defined service area.

Provisions

Grupo ICE recognizes provisions when the following conditions are met:

- there is a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision must be the best estimate of the consideration required to pay the present obligation at the close of the reporting period, taking into account the corresponding risks and uncertainties.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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Provisions are reviewed at each reporting date and adjusted to reflect the best estimate available.

(i) Litigation

A litigation provision is booked if the probability of existence of an obligation is greater than or equal to 50%. Additionally, Grupo ICE should consider if, due to a past event, it has no realistic alternative but to pay the obligation, taking into account all available evidence and professional judgment.

The best estimate must be made of the obligation amount according to professional judgment and knowledge of events and circumstances related to the case being analyzed. For extremely exceptional cases in which no reliable estimate can be made, such limitation must be justified.

(ii) Provision for mobile terminal warranties

The “Provision for mobile terminal warranties” includes the expected cost of obligations, under local regulations on the sale of assets, according to the best estimate made by the corresponding technical and financial areas of the outflows required to settle Grupo ICE’s obligations with its customers.

When warranties are supported by a third party (i.e. the supplier) that will be responsible for the total or a portion of the outflow required to settle the claim, the asset related to that right will be recorded only when the asset’s receipt is virtually certain. In such event, the asset must be recorded separately from the provision liability.

Other liabilities

Other liabilities include:

(i) Security deposits

Obligations arising from cash received by Grupo ICE from its customers to provide electricity and telecom services are booked as “Security deposits”. This liability is aimed at ensuring partial or full recovery of billings not paid by customers. Security deposits are recognized at amortized cost.

Security deposits are charged against the related account receivable when the service is cancelled at the request of the customer, or when Grupo ICE cancels the service as a result of non-payment by the customer.

(ii) Deposits from private individuals or companies

Obligations arising from cash paid by individuals or companies to fully or partially defray the cost of works and to ensure fulfillment of services that are yet to be provided to Grupo ICE are booked as “Deposits from private individuals or companies”.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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“Deposits from private individuals or companies” are derecognized when the service is provided, the contract extinguishes, deposits are reimbursed to the guarantors, or the customer violates the terms and conditions of the contract.

(iii) Valuation of derivative financial instruments

Changes in the fair value of cash flow hedges are booked as “Valuation of derivative financial instruments” under liabilities. Their fair value changes in response to variations in the price of the underlying asset.

For instruments designated as hedges, the effect of changes in their fair value is classified either in other comprehensive income or in profit or loss for the year depending on the assessment of the hedge’s effectiveness. The effect of the valuation of derivative financial instruments not classified as hedges is booked as finance costs in profit or loss for the year.

The “Valuation of derivative financial instruments” account is derecognized at a future date according to the contractual terms.

In the accounting for hedges of the foreign currency risk on fixed-rate debt as cash flow hedges, the net interest paid on the hedging instrument is recognized (cash flow swap).

In the accounting for hedges of the foreign currency risk on fixed-rate debt as cash flow hedges, Grupo ICE reverses the effect of foreign exchange differences arising from the measurement of the debt in a currency other than colones, with net interest earned on the hedge instrument, to recognize the reclassification of the derivative’s effective portion from profit or loss to equity.

The valuation of the instrument will be recognized in equity or in profit or loss for the year depending on the instrument’s effectiveness.

(g) Operating income policies

Income earned on the sale of goods, electricity and telecom services and other income, both locally and abroad, are recorded as “Operating income”.

Grupo ICE books a contract with a customer only when the following criteria are met:

- a) the parties to the contract have approved the contract and are committed to perform their respective obligations;
- b) Grupo ICE can identify each party’s rights regarding the goods or services to be transferred;
- c) Grupo ICE can identify the payment terms for the goods or services to be transferred;
- d) the contract has commercial substance; and
- e) it is probable that Grupo ICE will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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Revenue from contracts with customers are recognized by Grupo ICE when (or as) a performance obligation is satisfied through the transfer of control of a good or service. At inception of each contract, Grupo ICE determines whether the performance obligations are satisfied over time or at a point in time.

Grupo ICE considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Grupo ICE applies the practical expedient of not adjusting the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. Therefore:

- a) For contracts for the sale of goods or services with terms of 12 months or less, the financing component is recognized as part of operating income or other income, as applicable.
- b) For contracts for the sale of goods or services with terms of more than 12 months, Grupo ICE separates the financing component and recognizes it as finance income.

The amount of revenue from contracts with customers derived from a transaction is normally agreed between Grupo ICE and the customer. The consideration received or receivable will be measured at fair value, considering any discounts, bonuses or rebates granted by Grupo ICE.

Income from electricity and telecom services is recorded through billing cycles, supported by the receipt issued for these services, which includes the billing cycle that covers the period invoiced to the customer. Grupo ICE books income for the aforementioned services according to the date specified on the receipt.

Income from telecom services is booked separately according to each type of service included in the plan or package sold.

Income from post-paid telecom services is booked by Grupo ICE according to the date of invoice or receipt issued to the customer after the service is rendered (billing cycle).

Income from prepaid services is booked separately as income in each type and classification until services are rendered to the end customer. Traffic of fixed and mobile telephony is booked as income as calls are made. For prepaid services, the amount corresponding to traffic paid and pending consumption generates deferred income, which is booked under "Prepaid income" in the liability section of the consolidated statement of financial position. The sale of terminals individually sold or sold in plans or packages offered by ICE is recognized as income. Income from the sale of terminals is recognized at the amount established in the offered plans or packages when control of the terminal is transferred to the purchaser.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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Revenue and expenses that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenues and expenses.

Grupo ICE is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

- each party's enforceable rights regarding the service to be provided and received by the parties;
- the consideration to be exchanged; and
- the manner and terms of payment.

The stage of completion of revenue may be determined through different methods. Grupo ICE uses the method that measures reliably the services performed.

Depending on the nature of the transaction, the methods may include:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

When revenue cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense.

Income from services to third parties other than Grupo ICE's ordinary course of business is recorded as other income.

(h) Operating cost policies

The items of operating costs and operating expenses are presented by function in the consolidated statement of profit or loss and other comprehensive income. However, for accounting purposes, the nature of the cost or expense is considered, so they are identified by function based on the type of cost center.

Operation and maintenance

The cost of operating productive assets and keeping them in optimal working condition is booked as "Operation and maintenance".

Operation and maintenance costs are presented at historical cost.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Operation and maintenance of leased assets**

The depreciation of right-of-use assets and the operating and maintenance expenses of assets owned by third parties, used to provide electricity and telecom services, is booked as “Operation and maintenance of leased assets.”

Lease payments of low-value or short-term leases are recognized in profit or loss over the lease term in accordance with the contractual terms and conditions.

Supplemental services and purchases

Costs incurred by Grupo ICE to acquire electricity and telecom services from third parties are recognized as “Supplemental services and purchases”.

“Supplemental services and purchases” are booked at the cost incurred.

Selling expenses

The costs of mobile terminals and other devices sold are presented as “Selling expenses” and are booked at historical cost.

Production management

Costs incurred by the supporting areas of Grupo ICE’s segments for the normal development of their technical and administrative management activities are recorded as “Production management.”

Production management costs are booked at historical cost.

(i) Operating expense policies**Administrative**

Expenses incurred by the Corporate Sector to promote and ensure efficient management and compliance with Grupo ICE’s objectives and targets, as well as the normal development of administrative activities, are booked as “Administrative expenses”.

“Administrative expenses” are booked at historical cost.

Selling expenses

Expenses incurred by Grupo ICE to sell electricity and telecom services and other technical services provided to customers are presented as “Selling expenses.” This includes activities such as design of services, customer service and collection.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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“Selling expenses” are booked at historical cost.

Preliminary studies

Expenses incurred in the preliminary phases of projects for which execution is under analysis are presented as “Preliminary studies.” This includes identification and prefeasibility studies for projects or works to be built.

Expenses for “Preliminary studies” are booked at historical cost.

Supplemental expenses

“*Supplemental expenses*” include:

- Other expenses incurred by Grupo ICE to ensure the quality of the construction and operation of works owned by third parties. This account does not include preliminary or pre-investment studies or transactions that, based on their nature, are not considered to be part of other items of operating expenses and costs.
- Subsequent mitigation and social compensation costs that exceed the amounts established in the environmental management plan and were not included in the “Baseline”¹ planned and controlled by Grupo ICE.

Supplemental operating expenses are measured at historical cost.

Other expenses

Expenses incurred in the rendering of operation services different from Grupo ICE’s ordinary course of business are booked as “Other expenses.”

“Other expenses” are measured at historical cost.

(j) Finance income and finance cost policies

Finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- the net gain or loss on the disposal of investments in debt securities measured at FVOCI; and
- impairment losses (and reversals) on investments in debt securities carried at amortized cost or FVOCI.

¹ Term used in the Environmental Management Plan that defines the current conditions that have an impact on the construction of works and where mitigation and social compensation measures and the corresponding budget and schedule are established.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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Interest income or expense is recognized using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest expense is recognized in the period unless it is directly attributable to the acquisition or construction of productive assets of Grupo ICE, in which case it is capitalized as part of the cost of the asset.

(k) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(i) Current tax

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to the tax payable in respect of previous years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that Grupo ICE is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the business plans for individual subsidiaries in Grupo ICE and the reversal of temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in Grupo ICE. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which Grupo ICE expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(l) Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of Grupo ICE as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity-accounted investees and income taxes.

(m) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which Grupo ICE has access at that date. The fair value of a liability reflects its non-performance risk.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

A number of Grupo ICE's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, Grupo ICE measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to providing pricing information on an ongoing basis.

If there is no quoted price in an active market, then Grupo ICE uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then Grupo ICE measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If Grupo ICE determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Note 7. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after January 1, 2022, and earlier application is permitted; however, Grupo ICE has not early adopted the following new or amended standards in preparing these consolidated financial statements.

- Deferred Tax related to Asset and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1).

A. *Other standard*

The following amended standards and interpretations are not expected to have a significant impact on the Grupo ICE's consolidated financial statements.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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Standard	Description	Effective for the following periods	Type	Apply for Grupo ICE		Impacts the Financial Statements of 2022	
				Yes	No	Yes	No
IAS 8	Accounting policies, changes in accounting estimates and errors	January 1, 2023	Amendment - Definition of Accounting Estimates	X			X
IAS 1	Presentation of financial statements	January 1, 2023	Amendment - Disclosure of Accounting Policies	X			X
IFRS 17	Insurance contracts	January 1, 2023	Amendment IFRS 17		X		X

Note 8. Property, plant and equipment, net

Property, plant and equipment, net, comprises the following general asset categories:

	As of December 31,	
	2022	2021
<u>Cost:</u>		
Operating assets	¢ 9,701,611	9,593,355
Other operating assets	368,676	400,640
Total operating assets - cost	<u>10,070,287</u>	<u>9,993,995</u>
<u>Accumulated depreciation:</u>		
Operating assets	4,995,147	4,719,992
Other operating assets	311,883	324,013
Total accumulated depreciation of operating assets - cost	<u>5,307,030</u>	<u>5,044,005</u>
Operating assets, net	<u>4,763,257</u>	<u>4,949,990</u>
<u>Other assets</u>		
Construction work in progress	126,543	142,442
Inventories – inventory for investment projects/operating inventory	117,462	130,840
Total other assets	<u>244,005</u>	<u>273,282</u>
	<u>¢ 5,007,262</u>	<u>5,223,272</u>

As of December 31, 2022, assets with a carrying amount of ¢808,567 (2021: ¢945,609) secure bank loans (see Note 17(b)).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

(i) Cost

The cost of property, plant and equipment is as follows:

	As of January 1, 2021	Additions and capitalizations	Disposals	Transfers	As of December 31, 2021	Additions and capitalizations	Disposals	Transfers	As of December 31, 2022
Land	211,232	412	(42)	1	211,603	35	(151)	-	211,487
Buildings	433,691	413	(92)	656	434,668	5,588	(511)	-	439,745
Hydroelectric power generation	3,481,376	5,540	(2,993)	3,535	3,487,458	7,294	(2,804)	(8)	3,491,940
Thermal power generation	340,583	-	(19,738)	(4,188)	316,657	-	(12,284)	1	304,374
Geothermal power generation	788,403	205	(108)	-	788,500	74	-	-	788,574
Wind power generation	165,609	-	(1,866)	-	163,743	-	-	(1)	163,742
Solar power generation	13,071	54	-	-	13,125	46	-	(1)	13,170
Substations	517,180	10,568	(3,002)	(2)	524,744	18,459	(1,563)	2	541,642
Transmission lines	395,409	279	(1,895)	-	393,793	3,420	-	-	397,213
Distribution circuits	991,637	29,384	(5,164)	-	1,015,857	18,297	(2,845)	-	1,031,309
Public lighting	32,111	3,085	(926)	(1)	34,269	1,740	(1,101)	-	34,908
Control, communications and infrastructure equipment	289,003	2,570	(909)	-	290,664	3,999	(2,346)	(21)	292,296
Transport	764,073	7,826	(9,334)	-	762,565	4,704	(9,052)	(1)	758,216
Access	615,834	48,014	(9,073)	(1)	654,774	53,340	(2,998)	-	705,116
Civil and electromechanical	211,391	7,910	(68)	-	219,233	6,166	(4)	-	225,395
Platforms	251,465	10,904	(2,204)	(1)	260,164	13,196	(319)	(1)	273,040
Furniture and equipment	2,134	165	(33)	-	2,266	1,214	(30)	(156)	3,294
Tower sites and land	19,272	-	-	-	19,272	6,878	-	-	26,150
Subtotal operating assets	9,523,474	127,329	(57,447)	(1)	9,593,355	144,450	(36,008)	(186)	9,701,611
Other operating assets	409,523	4,147	(13,023)	(7)	400,640	7,633	(39,783)	186	368,676
	9,932,997	131,476	(70,470)	(8)	9,993,995	152,083	(75,791)	-	10,070,287

For hydroelectric, thermal, wind and solar power generation, substations and distribution lines, the machinery and equipment used in power plants for generation and distribution are included.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(ii) Accumulated depreciation:

The accumulated depreciation of property, plant and equipment is as follows:

	As of January 1, 2021	Depreciation	Disposals	Transfers	As of December 31, 2021	Depreciation	Disposals	Transfers	As of December 31, 2022
Buildings	158,281	9,620	(27)	418	168,292	13,151	(1,083)	(1)	180,359
Hydroelectric power generation	1,261,214	59,472	(1,320)	2,076	1,321,442	58,779	(1,110)	2	1,379,113
Thermal power generation	144,942	12,180	(13,884)	(2,501)	140,737	9,620	(6,133)	-	144,224
Geothermal power generation	389,959	26,391	(55)	1	416,296	25,786	-	(2)	442,080
Wind power generation	87,425	10,063	(1,837)	-	95,651	9,631	-	-	105,282
Solar power generation	7,514	477	-	-	7,991	411	-	-	8,402
Substations	275,721	18,976	(2,134)	(30)	292,533	18,569	(1,180)	-	309,922
Transmission lines	142,659	10,589	(559)	31	152,720	11,093	-	-	163,813
Distribution circuits	405,302	33,655	(3,014)	-	435,943	34,164	(1,348)	1	468,760
Public lighting	17,015	2,021	(470)	-	18,566	2,164	(676)	-	20,054
Control, communications and infrastructure equipment	121,647	7,859	(818)	-	128,688	7,325	(2,086)	(11)	133,916
Transport	541,610	24,808	(9,157)	(427)	556,834	24,011	(8,999)	1	571,847
Access	496,325	56,845	(8,364)	266	545,072	54,027	(2,985)	1	596,115
Civil and electromechanical	210,942	11,271	(13)	(250)	221,950	10,575	(4)	(1)	232,520
Platforms	193,987	12,846	(2,204)	416	205,045	16,555	(148)	1	221,453
Furniture and equipment	1,836	299	(29)	-	2,106	277	(30)	-	2,353
Tower sites and land	6,790	3,336	-	-	10,126	4,808	-	-	14,934
Subtotal operating assets	4,463,169	300,708	(43,885)	-	4,719,992	300,946	(25,782)	(9)	4,995,147
Other operating assets	316,207	18,556	(10,750)	-	324,013	19,209	(31,348)	9	311,883
	4,779,376	319,264	(54,635)	-	5,044,005	320,155	(57,130)	-	5,307,030

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

For 2022 and 2021, assets are depreciated using the following useful lives:

Asset group	Useful life in years
Buildings	40 to 50
Hydraulic power generation	15 to 60
Thermal power generation	15 to 60
Geothermal power generation	5 to 60
Wind power generation	5 to 50
Solar power generation	3 to 50
Substations	10 to 40
Transmission lines	20 to 40
Distribution circuits	8 to 30
Public lighting	10 to 30
Control, communication and infrastructure equipment	5 to 50
Transport	2 to 25
Access	2 to 20
Civil and electromechanical	5 to 50
Platforms	2 to 20
Furniture and equipment	4 to 20
Transport equipment	5 to 25
Tower sites	3 to 25
Other operating assets	3 to 25

ICE-HUAWEI Agreement AC-018-17

Regarding the ICE-HUAWEI Agreement AC-018-17, according to the analysis performed subsequent to the recognition of a right-of-use asset and the corresponding lease liability in 2021, an adjustment was made to the values associated with the Set Top Box (STB) and licenses, recognizing an increase in assets and liabilities and the respective effects of depreciation and finance costs on profit or loss for the period.

As of December 31, 2022, ICE updated the right-of-use asset by ¢4,095 and the corresponding liability by ¢3,992 (see Note 18).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(iii) Other assets

Other assets in property, plant and equipment are as follows:

	Construction work in progress	Inventory for investment projects / operating inventory	Total
As of January 1, 2021	¢ 162,652	111,081	273,733
Additions	105,736	64,221	169,957
Disposals	(5,361)	(480)	(5,841)
Transfers	(6,197)	6,197	-
Capitalizations and consumption	(115,512)	(50,179)	(165,691)
Interest and commissions	1,124	-	1,124
As of December 31, 2021	142,442	130,840	273,282
Additions	91,426	31,970	123,396
Disposals	(1,418)	-	(1,418)
Adjustments and transfers	-	(11,870)	(11,870)
Capitalizations and consumption	(106,476)	(33,479)	(139,955)
Interest and commissions	569	-	569
As of December 31, 2022	¢ 126,543	117,462	244,005

The capitalization rate used to determine the amount of capitalizable loan costs was 0.24% (2021: 0.45%).

A description of the main construction works in progress as of December 31, 2022 and 2021 is provided below:

(a) Borinquen Geothermal Project

This project includes costs in the amount of ¢69,430 (2021: ¢58,722) incurred in the development of the geothermal project known as Borinquen 1, located on the Guanacaste mountain range, on the pacific slope of Rincón de la Vieja Volcano. It will have an estimated power output of 52 MW, with an estimated cost of US\$375 million.

(b) Installation of residential services

This is a permanently executed project. It is used to book all costs incurred by technical personnel in the installation of new residential services in the whole country. These costs are capitalized as the work is individually completed. The main goal of these solutions is to satisfy the needs of residential customers, who demand the latest generation services. As of December 31, 2022, the balance is ¢11,699 (2021: ¢7,736).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(c) Expansion and renewal of technological platforms

This project includes the development of the technological ecosystem of Grupo ICE. This project enables Grupo ICE to provide the technological capabilities of information systems, both for administrative and commercial purposes, of the Telecom and Electricity segments. Through the projects to expand and renew the technological capabilities of the corporate platforms, Grupo ICE ensures that its commercial operations remain competitive and have cutting-edge technology. As of December 31, 2022, the balance is ¢9,045 (2021: ¢6,874).

(d) FONATEL

It considers the implementation of infrastructure and the provision of voice and internet services according to the existing contracts between the GPP SUTEL-BNCR Trust and ICE. As of December 31, 2022, the balance is ¢6,159 (2021: ¢8,021).

(e) Continuous quality improvement

Global program of multiple works including the reconstruction of lines, addition of phases and construction of new feeders related to exits to substations or backups of existing networks. As of December 31, 2022, the balance is ¢3,837 (2021: ¢4,356).

(f) DCT Ruta Nacional 1 Cañas-Barranca

This project includes planning, design, procurement of materials, execution (installation and dismantling of infrastructure during the expansion works) and the start-up of operations of the new infrastructure. As of December 31, 2022, the balance is ¢2,701 (2021: ¢1,626).

(g) Improvements to the network

This is a permanent execution project at the telecom systems level that allows the entity to ensure, by means of improvements, the adequate functioning and access to all components of that system, in order to provide continuous and top quality communication services, within the parameters set by the regulating entity. As of December 31, 2022, the balance is ¢2,356 (2021: ¢2,074).

(h) Extension of the LTE network

Its goal is to provide more bandwidth and data transmission speeds, matching the demand and the needs of end users. As of December 31, 2022, the balance of ¢1,969 (2021: ¢12,427) and the project has a total budget of US\$47.6 million.

(i) Temporarily inactive property, plant and equipment

As of December 31, 2022, there are 732 depreciable assets, of which 39 assets with a carrying amount of ¢917 have not reported usage during 2022 (2021: 2,883 assets with a carrying amount of ¢12,896 did not report usage during 2021).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

During 2022, the annual review of useful lives and depreciation method of fixed assets determined that it was necessary to change the depreciation method for some assets from a usage-based depreciation to depreciation on a straight-line basis. As of the date of the change, the depreciation on a straight-line basis would better reflect the pattern in which the future economic benefits of those assets are expected to be consumed. The effect of the adjustment due to the change in the depreciation method amounted to ¢6,411, which was booked as an expense in profit or loss. Since it was not feasible to estimate the expense for depreciation by usage of the assets subject to the change, it was considered impractical to disclose the effect of that change in future periods. In addition, assets were disposed when it was estimated that due to their condition, they would not generate future benefits for the entity. This resulted in an expense of ¢9,155 booked in profit or loss.

Note 9. Intangible assets, net

Intangible assets, net are as follows:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
<i><u>Intangible assets with a definite useful life:</u></i>		
<i><u>Cost</u></i>		
Licenses, systems and applications (1)	¢ 164,006	145,738
Submarine cable rights (2)	<u>70,451</u>	<u>70,451</u>
Total cost	<u>234,457</u>	<u>216,189</u>
<i><u>Accumulated amortization:</u></i>		
Licenses, systems and applications (1)	(121,254)	(102,088)
Submarine cable rights (2)	<u>(59,369)</u>	<u>(54,401)</u>
Total accumulated amortization	<u>(180,623)</u>	<u>(156,489)</u>
Intangible assets with a definite useful life, net	<u>53,834</u>	<u>59,700</u>
<i><u>Intangible assets with an indefinite useful life:</u></i>		
Rights of way and easements (3)	36,919	34,933
Other	<u>2,813</u>	<u>2,813</u>
Intangible assets with an indefinite useful life, net	<u>39,732</u>	<u>37,746</u>
	<u>¢ 93,566</u>	<u>97,446</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Intangible assets are as follows:

	<u>Licenses, systems and applications (1)</u>		<u>Submarine cable rights (2)</u>		<u>Rights of way and easements (3)</u>		<u>Other</u>		<u>Totals</u>	
	<u>As of December 31,</u>		<u>As of December 31,</u>		<u>As of December 31,</u>		<u>As of December 31,</u>		<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<i>Cost:</i>										
Opening balance	¢ 145,738	132,940	70,451	70,451	34,933	34,910	2,813	2,813	253,935	241,114
Additions and capitalizations	18,779	15,038	-	-	1,986	118	-	-	20,765	15,156
Transfers	(105)	(1,758)	-	-	-	(65)	-	-	(105)	(1,823)
Disposals	(406)	(482)	-	-	-	(30)	-	-	(406)	(512)
Closing balance	<u>164,006</u>	<u>145,738</u>	<u>70,451</u>	<u>70,451</u>	<u>36,919</u>	<u>34,933</u>	<u>2,813</u>	<u>2,813</u>	<u>274,189</u>	<u>253,935</u>
<i>Accumulated amortization</i>										
Opening balance	102,088	84,073	54,401	49,429	-	-	-	-	156,489	133,502
Amortization - expense	19,572	18,611	4,968	4,972	-	-	-	-	24,540	23,583
Amortization - investment	-	174	-	-	-	-	-	-	-	174
Transfers	-	(288)	-	-	-	-	-	-	-	(288)
Disposals	(406)	(482)	-	-	-	-	-	-	(406)	(482)
Closing balance	<u>121,254</u>	<u>102,088</u>	<u>59,369</u>	<u>54,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,623</u>	<u>156,489</u>
	<u>¢ 42,752</u>	<u>43,650</u>	<u>11,082</u>	<u>16,050</u>	<u>36,919</u>	<u>34,933</u>	<u>2,813</u>	<u>2,813</u>	<u>93,566</u>	<u>97,446</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(1) Licenses, systems and applications

As of December 31, 2022, this balance mainly includes the ERP Integrated Planning and Management System, which as of that date has the main operating modules of the ERP integrated solution, with a carrying amount of ¢25,660 (2021: ¢23,968). This software is amortized over a 10-year term, ending in 2029 (the remaining useful life is 7 years). Other licenses and applications are amortized over a 3-year term.

(2) Submarine cable rights

The terms of the submarine cable IRU establish average terms of 15 years, which may be extended for the lower of a similar term or the useful life of the cable.

(3) Rights of way and easements

Rights of way and easements correspond to *in rem* rights acquired by ICE on land owned by third parties, in order to obtain access to develop its projects and to provide electricity and telecommunications services. However, those rights are mainly for transmission lines.

In accordance with the terms and conditions of the agreements, ICE has rights of way and easements that do not entail the purchase of land or assignment of property to ICE. Furthermore, the agreements do not establish a specific term in years for the exercise of that right, thus establishing a permanent easement.

Consequently, management considers that those intangible assets meet the requirement of having an indefinite useful live, insofar as it is not expressed or indicated in the agreement that there is a definite term for the asset to continue generating cash flows to the entity.

Note 10. Equity investments

Equity investments are as follows:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
<u>Joint venture measured using the equity method:</u>		
Tecomunica, S.A. - Nicaragua; 500 ordinary shares with a par value of C\$101,000; 50% ownership interest (1)	¢ <u>1,070</u>	<u>1,104</u>
<u>Other investments:</u>	<u>54</u>	<u>54</u>
<u>Equity investments measured at FVOCI:</u>		
Empresa Propietaria de la Red, S.A.; 6,061 shares with a par value of US\$1,000; 10.36% ownership interest (2)	¢ <u>4,603</u>	<u>6,673</u>
	<u>5,727</u>	<u>7,831</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(1) Tecomunica, S.A. – Nicaragua

ICE and Empresa Nacional de Transmisión Eléctrica (ENATREL) agreed to organize a company (joint venture) domiciled in Managua, Nicaragua, named Tecomunica, S.A., with the purpose of selling and marketing telecommunication services.

Grupo ICE applied the equity method to measure the joint venture with ENATREL. A summary of the financial information of Tecomunica, S.A. is provided below:

	As of December 31,	
	2022	2021
Percentage ownership interest	50%	50%
Non-current assets	¢ 1,633	1,805
Current assets (including cash and cash equivalents – 2022: ¢99, 2021: ¢98)	1,160	1,137
Non-current liabilities	(105)	(137)
Current liabilities	(548)	(597)
Net assets (100%)	2,140	2,208
Grupo ICE's share of net assets (50%)	1,070	1,104
Carrying amount of interest in joint venture	¢ 1,070	1,104
	As of December 31,	
	2022	2021
Current liabilities (excluding trade and other payables – 2022: ¢519, 2021: ¢565, respectively)	¢ 29	32
	For the year ended	
	December 31,	
	2022	2021
Revenue	¢ 1,930	2,022
Depreciation expense	(294)	(261)
Interest income	9	1
Interest expense	(1)	(1)
Income tax expense	(11)	(55)
Profit and total comprehensive income (100%)	(97)	93
Profit and total comprehensive income (50%)	(49)	47
Grupo ICE's share of other comprehensive income	¢ (49)	47

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

(2) Empresa Propietaria de la Red, S.A. (EPR)

Grupo ICE holds ownership interest in Empresa Propietaria de la Red, S.A. (EPR), which was selected to execute the Sistema de Interconexión Eléctrica para los Países de América Central (SIEPAC, Electric Interconnection System for the Central American countries) project. This investment is made by Grupo ICE along with the entities responsible for the management of electricity in the six Central American countries and three additional entities located in Spain, Colombia and Mexico. Each of the nine countries holds 11.11% ownership interest in EPR and shall not hold more than 15%.

As of December 31, 2022, due to the measurement of this investment at fair value, decrease is recognized in other comprehensive income in the amount of ¢2,070 (2021: increase of ¢471).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Note 11. Notes and other accounts receivable, net

Notes and other accounts receivable are as follows:

	As of December 31,					
	2022			2021		
	Non-current	Current	Total	Non-current	Current	Total
<u>Notes receivable</u>						
Loan to Empresa Propietaria de la Red, S.A. (1)	¢ 1,527	145	1,672	1,803	156	1,959
Loans due from employees (2)	176,675	1,662	178,337	179,616	1,300	180,916
Payment arrangements	348	2,590	2,938	225	3,088	3,313
Allowance for loan losses - Notes receivable (Note 30)	(1,592)	(3,167)	(4,759)	(2,472)	(2,239)	(4,711)
	<u>176,958</u>	<u>1,230</u>	<u>178,188</u>	<u>179,172</u>	<u>2,305</u>	<u>181,477</u>
<u>Non-trade receivables</u>						
Customers in general	-	20,138	20,138	-	14,393	14,393
Government	-	2,418	2,418	-	2,595	2,595
Other accounts receivable	272	451	723	-	425	425
Allowance for impairment - non-trade receivables (Note 30)	-	(1,503)	(1,503)	-	(861)	(861)
	<u>272</u>	<u>21,504</u>	<u>21,776</u>	<u>-</u>	<u>16,552</u>	<u>16,552</u>
<u>Interest receivable</u>	-	9,949	9,949	-	6,535	6,535
<u>Tax credits and/or withholdings</u>	-	23,793	23,793	-	23,793	23,793
<u>Advances granted to suppliers</u>						
Customers in general	-	2,169	2,169	-	931	931
Government	-	11,028	11,028	-	2,231	2,231
Employees	-	43	43	-	13	13
	<u>-</u>	<u>13,240</u>	<u>13,240</u>	<u>-</u>	<u>3,175</u>	<u>3,175</u>
¢	<u>177,230</u>	<u>65,030</u>	<u>242,260</u>	<u>179,172</u>	<u>52,360</u>	<u>231,532</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(1) Loan to Empresa Propietaria de la Red, S.A. (EPR)

This balance corresponds mainly to a loan agreement subscribed by ICE and EPR to repay IDB loan No. 1908, which as of December 31, 2022, amounts to ¢1,672. Of this amount, the current portion is ¢145 and the non-current portion is ¢1,527 (2021: balance of ¢1,959, with a current portion of ¢156 and the non-current portion is ¢1,803). The total term of the loan is 25 years starting November 24, 2010, with a five-year grace period, payable half-yearly, bearing an annual variable interest rate equivalent to 3-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.52% for the periods 2022 and 2021, unsecured.

(2) Loans due from employees

Loans due from employees are loans granted through ICE's Employee Guarantee and Savings Fund. This fund was created by Law No. 3262 of February 16, 1965. Mortgage loans, personal loans and secured loans are granted to employees for housing, purchase of vehicles and other.

As of December 31, the portfolio of loans to employees, current and in legal collection, by type of guarantee, is as follows:

		2022		
		Loans to employees	Loans in legal collection	Total
Mortgage	¢	101,302	1,711	103,013
Fiduciary		71,675	1,038	72,713
Chattel mortgage		2,611	-	2,611
	¢	<u>175,588</u>	<u>2,749</u>	<u>178,337</u>
		2021		
		Loans to employees	Loans in legal collection	Total
Mortgage	¢	106,798	1,502	108,300
Fiduciary		69,598	794	70,392
Chattel mortgage		2,224	-	2,224
	¢	<u>178,620</u>	<u>2,296</u>	<u>180,916</u>

Collateral guarantees: The Fund accepts collateral guarantees (usually mortgages) to secure its loans. The value of collateral is determined by an appraisal performed by an independent appraiser who determines the estimated fair value of land and buildings based on comparable market offerings and prior appraisals made by the appraiser.

Chattel mortgage guarantees: The Fund also accepts chattel mortgage to secure loans on new vehicles. These are established based on the amount included in the pro forma invoice; 80% of the vehicle's value is financed.

The Fund also accepts fiduciary guarantees.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

As of December 31, the terms of the portfolio of loans to employees is as follows:

	2022					Total
	<u>0-1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>More than 4 years</u>	
<u>Maturity in years:</u>						
<u>Personal portfolio (fiduciary guarantee)</u>						
Balance	¢ 1,209	1,757	2,558	3,834	63,355	72,713
Number of operations	4,548	2,828	2,728	3,249	29,779	43,132
Average annual interest rate	12%	12%	12%	12%	12%	
<u>Mortgage portfolio</u>						
Balance	¢ 407	308	54	1,813	100,431	103,013
Number of operations	396	125	160	294	4,497	5,472
Average annual interest rate	9%	9%	9%	8%	8%	
<u>Chattel mortgage portfolio</u>						
Balance	¢ 46	16	96	389	2,064	2,611
Number of operations	9	4	23	85	269	390
Average annual interest rate	9%	8%	8%	8%	8%	
<u>Total portfolio by maturity</u>	¢ <u>1,662</u>	<u>2,081</u>	<u>2,708</u>	<u>6,036</u>	<u>165,850</u>	<u>178,337</u>
<u>Total number of operations</u>	<u>4,953</u>	<u>2,957</u>	<u>2,911</u>	<u>3,628</u>	<u>34,545</u>	<u>48,994</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

		2021					
<u>Maturity in years:</u>		<u>0-1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>More than 4 years</u>	Total
<u>Personal portfolio (fiduciary guarantee)</u>							
Balance	¢	1,156	2,207	2,852	4,333	59,844	70,392
Number of operations		3,629	3,075	3,641	3,828	27,425	41,598
Average annual interest rate		13%	13%	14%	14%	15%	
<u>Mortgage portfolio</u>							
Balance	¢	139	267	493	628	106,773	108,300
Number of operations		170	129	156	195	5,016	5,666
Average annual interest rate		10%	9%	9%	9%	9%	
<u>Chattel mortgage portfolio</u>							
Balance	¢	5	12	18	141	2,048	2,224
Number of operations		2	2	3	30	308	345
Average annual interest rate		9%	9%	9%	9%	9%	
<u>Total portfolio by maturity</u>	¢	<u>1,300</u>	<u>2,486</u>	<u>3,363</u>	<u>5,102</u>	<u>168,665</u>	<u>180,916</u>
<u>Total number of operations</u>		<u>3,801</u>	<u>3,206</u>	<u>3,800</u>	<u>4,053</u>	<u>32,749</u>	<u>47,609</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)***Note 12. Investments in financial instruments**

Investments in financial instruments are as follows:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
At amortized cost	¢ 42,856	-
At FVOCI	303,109	313,595
At FVTPL	13,799	11,863
	<u>¢ 359,764</u>	<u>325,458</u>

See Note 30, a detailed of the risk ratings of investments in financial instruments and the short-term investments in Note 14.

Investments in financial instruments in the amount of ¢316,639 (2021: ¢312,614) are destined specifically for the operation of ICE's Guarantee and Savings Fund.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Investments in financial instruments are as follows:

Issuer	Type of financial instrument	Currency	December 31, 2022			
			Balance	Interest rate	Maturity	
<u>At amortized cost</u>						
<u>Government</u>						
Bonds	Fixed-rate instruments	US dollars	¢ 35,239	5.75% to 9.20%	2024 to 2025	
<u>Public financial entities</u>						
Bonds	Fixed-rate instruments	US dollars	5,925	3.90%	2024	
Term certificate of deposit	Fixed-rate instruments	US dollars	1,659	3.30% to 4.75%	2025 to 2027	
Term certificate of deposit	Fixed-rate instruments	Colones	33	7.90% to 8.25%	2024	
			<u>42,856</u>			
<u>At fair value through other comprehensive income</u>						
<u>Government</u>						
Bonds	Fixed-rate instruments	Colones	153,555	5.94% to 10.75%	2024 to 2036	
Bonds	Variable-rate instruments	Colones	56,819	5.47% to 8.69%	2026 to 2044	
Bonds	Fixed-rate instruments	US dollars	48,286	5.41% to 7.90%	2024 to 2034	
Bonds	Fixed-rate instruments	DU	25,584	3.39% to 6.36%	2026 to 2043	
<u>Private financial entities</u>						
Bonds	Fixed-rate instruments	Colones	10,636	4.26% to 10.14%	2024 to 2027	
Bonds	Fixed-rate instruments	US dollars	308	3.77% to 5.74%	2024 to 2025	
<u>Public financial entities</u>						
Bonds	Fixed-rate instruments	Colones	5,066	5.46% to 8.79%	2024 to 2025	
<u>Public non-financial entities</u>						
Bonds	Fixed-rate instruments	US dollars	1,249	5.85% to 6.48%	2028 to 2029	
Bonds	Variable-rate instruments	Colones	347	7.80% to 8.12%	2027 to 2033	
<u>Private non-financial entities</u>						
Bonds	Fixed-rate instruments	US dollars	1,259	6.52%	2027	
			<u>303,109</u>			
<u>At fair value through profit or loss</u>						
<u>Private financial entities</u>						
Bonds	Closed fund - dividends	US dollars	11,842	1.23% to 5.00%	-	
<u>Public financial entities</u>						
Bonds	Closed fund - dividends	US dollars	1,957	1.60% to 7.83%	-	
			<u>13,799</u>			
			¢ <u>359,764</u>			

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Issuer	Type of financial instrument	Currency	December 31, 2021		
			Balance	Interest rate	Maturity
<u>At fair value through other comprehensive income</u>					
Government					
Bonds	Fixed-rate instruments	Colones	¢ 180,082	6.48% to 10.75%	2023 to 2036
Bonds	Fixed-rate instruments	US dollars	40,526	10.46% to 13.40%	2023 to 2033
Bonds	Variable-rate instruments	Colones	56,407	4.06% to 5.43%	2026 to 2044
Bonds	Fixed-rate instruments	DU	14,048	6.57% to 8.87%	2026 to 2040
Public financial entities					
Bonds	Fixed-rate instruments	Colones	5,411	5.46% to 8.42%	2023 to 2024
Bonds	Variable-rate instruments	Colones	2,418	4.22%	2023
Bonds	Certificate of deposit	US dollars	150	3.30% to 4.75%	2023 to 2025
Bonds	Certificate of deposit	Colones	83	4.65% to 8.25%	2023 to 2024
Public non-financial entities					
Bonds	Fixed-rate instruments	US dollars	1,261	5.84% to 11.45%	2028 to 2029
Private financial entities					
Bonds	Fixed-rate instruments	Colones	6,707	4.97% to 9.60%	2023 to 2024
Bonds	Fixed-rate instruments	US dollars	1,896	9.83%	2023
Private non-financial entities					
Bonds	Fixed-rate instruments	US dollars	1,517	11.70%	2027
Bonds	Fixed-rate instruments	Colones	753	8.62% to 8.84%	2023
Bonds	Variable-rate instruments	Colones	2,336	4.37% to 5.21%	2023 to 2033
			<u>313,595</u>		
<u>At fair value through profit or loss</u>					
Private financial entities					
Bonds	Closed fund - dividends	US dollars	9,329	6.33% to 10.41%	-
Public financial entities					
Bonds	Closed fund - dividends	US dollars	2,534	5.61% to 12.88%	-
			<u>11,863</u>		
			¢ <u>325,458</u>		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Note 13. Inventories

Inventories are as follows:

	As of December 31,	
	2022	2021
Materials, spare parts and supplies	¢ 26,953	8,427
Fuels and lubricants	9,392	12,734
Tools	1,076	1,957
Assets for sale	15,786	7,589
Inventory of materials in transit	827	83
Other	1,345	4,033
	¢ 55,379	34,823

As of December 31, 2022 and 2021, inventories include decreases in the net realizable value in the amount of ¢10,457 and ¢32,543, respectively. The impairment of inventories recognized as expenses amounted to ¢2,017 (2021: ¢1,819).

During 2022, inventories in the amount of ¢89,723 (2021: ¢69,563) were recognized as operating costs and expenses for the period, depending on the use of those inventories.

Note 14. Investments in financial instruments

Investments in financial instruments are as follows:

	As of December 31,	
	2022	2021
At amortized cost	¢ 134,868	56,281
At FVOCI	47,981	28,735
At FVTPL	8,580	36,618
	¢ 191,429	121,634

See Note 30, a detailed of the risk ratings of investments in financial instruments and the long-term investments in Note 12.

Investments in financial instruments measured at amortized cost include a restricted amount of ¢24,703 (2021: ¢16,873), which is earmarked as part of a provision for the quarterly payment of interest and principal on the series closest to maturity of bonds payable. Similarly, investments in financial instruments in the amount of ¢53,455 (2021: ¢61,417) are destined for the specific operation of ICE's Guarantee and Savings Fund.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Investments in financial instruments are as follows:

Issuer	Type of financial instrument	Currency	As of December 31, 2022		
			Balance	Interest rate	Maturity
At amortized cost					
Public financial entities					
Term certificate of deposit	Fixed-rate instruments	Colones	¢ 101,066	4.65% al 8.82%	2023
Mortgage participation certificate	Fixed-rate instruments	Colones	7,985	8.75% al 9.35%	2023
Term certificate of deposit	Fixed-rate instruments	US dollars	117	0.09% al 1.02%	2023
Private financial entities					
Term certificate of deposit	Fixed-rate instruments	Colones	20,561	7.00% al 9.35%	2023
Term certificate of deposit	Fixed-rate instruments	US dollars	5,139	1.75% al 3.00%	2023
			<u>132,422</u>		
At fair value through other comprehensive income					
Public financial entities					
Bonds	Fixed-rate instruments	Colones	24,648	3.17% al 10.92%	2023
Bonds	Variable-rate instruments	Colones	2,392	7.47%	2023
Private financial entities					
Bonds	Fixed-rate instruments	Colones	9,077	5.95% al 10.71%	2023
Bonds	Fixed-rate instruments	US dollars	1,773	4.74%	2023
Government					
Bonds	Variable-rate instruments	Colones	3,002	9.13%	2023
Bonds	Fixed-rate instruments	US dollars	2,837	6.53%	2023
Bonds	Fixed-rate instruments	Colones	1,497	8.86% to 9.10%	2023
Private non-financial entities					
Bonds	Variable-rate instruments	Colones	1,825	7.54%	2023
Bonds	Fixed-rate instruments	Colones	719	8.62% al 8.85%	2023
Public non-financial					
Bonds	Variable-rate instruments	Colones	211	8.08%	2023
			<u>47,981</u>		
At fair value through profit or loss					
Public financial entities					
Bonds	Investment fund	Colones	5,707	2.92% al 4.06%	2023
Investment fund	Fixed-rate instruments	US dollars	2,581	1.64% al 2.73%	2023
Bonds	Investment fund	US dollars	168	1.52%	2023
Investment fund	Investment fund	Colones	124	1.00%	2023
			<u>8,580</u>		
			<u>¢ 191,429</u>		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Issuer	Type of financial instrument	Currency	As of December 31, 2021		
			Balance	Interest rate	Maturity
<u>At amortized cost</u>					
Public financial entities					
Bonds	Fixed-rate instruments	US dollars	¢ 20,997	1% to 4.77%	2022
Bonds	Fixed-rate instruments	Colones	13,837	1.75% to 4%	2022
Bonds	Investment fund	Colones	120	1.00%	2022
Private financial entities					
Bonds	Fixed-rate instruments	Colones	4,037	3% to 3.25%	2022
Bonds	Certificate of deposit	US dollars	69	2.12% to 4.30%	2022
Government					
Bonds	Fixed-rate instruments	US dollars	17,221	5.48% to 5.61%	2022
			<u>56,281</u>		
<u>At fair value through other comprehensive income</u>					
Government					
Bonds	Fixed-rate instruments	Colones	5,098	2.00% to 9.08%	2022
Bonds	Fixed-rate instruments	US dollars	3,942	10.31% to 14.50%	2022
Central Bank bond	Fixed-rate instruments	US dollars	3,294	5.52%	2022
Public financial entities					
Bonds	Fixed-rate instruments	Colones	7,696	2.20% to 7.12%	2022
Bonds	Variable-rate instruments	Colones	3,229	4.76% to 5.69%	2022
Bonds	Fixed-rate instruments	US dollars	448	10.66%	2022
Private non-financial entities					
Bonds	Fixed-rate instruments	US dollars	1,723	12.00%	2022
Private financial entities					
Bonds	Fixed-rate instruments	Colones	1,659	9.08% to 9.25%	2022
Bonds	Variable-rate instruments	Colones	1,004	4.22%	2022
Public non-financial					
Bonds	Fixed-rate instruments	US dollars	642	5.50%	2022
			<u>28,735</u>		
<u>At fair value through profit or loss</u>					
Public financial entities					
Bonds	Investment fund	Colones	35,543	0.07% to 0.13%	2022
Bonds	Investment fund	US dollars	1,075	4.50% to 5.08%	2022
			<u>36,618</u>		
			¢ <u>121,634</u>		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 15. Trade receivables, net**

Trade receivables, net, are as follows:

	As of December 31,	
	2022	2021
Customers in general	¢ 194,378	186,934
Government	40,958	44,019
Private banks	297	301
Other	-	302
	<u>235,633</u>	<u>231,556</u>
Allowance for impairment of trade receivables (note 30)	(60,605)	(58,338)
	<u>¢ 175,028</u>	<u>173,218</u>

Grupo ICE's exposure to credit risk, market risk and impairment losses on trade receivables is disclosed in Note 30.

Note 16. Cash and cash equivalents

Cash and cash equivalents are as follows:

	As of December 31,	
	2022	2021
Cash on hand and in banks	¢ 302,123	406,020
Restricted cash	19,728	2,780
Cash equivalents	16,927	20,832
	<u>¢ 338,778</u>	<u>429,632</u>

Restricted cash includes ¢1,830 (2021: ¢2,834) destined for the specific operation of ICE's Guarantee and Savings Fund.

Cash equivalents mainly include demand and term certificates of deposit denominated in colones bearing interest at rates ranging from 1.05% to 5.50% and from 0.69% to 1.98% in US dollars per annum (2021: from 1.25% to 4.77% per annum in US dollars).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 17. Financial debt****a. Bonds payable**

Bonds payable issued by Grupo ICE are as follows:

	Currency	Annual interest rate	Maturity	As of December 31,					
				2022			2021		
				Non-current	Current	Total	Non-current	Current	Total
<u>Internal debt:</u>									
Bonds issue	¢	Variable rate between 5.30% and 7.85% (2021: variable rate between 4.85% and 6.63%) and fixed rate between 7.33% and 8.63% in 2022 and 2021	2023-2028	¢ 150,411	74,457	224,868	225,735	-	225,735
Bonds issue	US\$	Fixed rate 7.61% (2021: variable rate 10.71% and fixed between 7.18% and 7.61%. in 2021)	2023-2027 (2021: 2022-2027)	175,857	-	175,857	189,421	88,859	278,280
<u>External debt:</u>									
Bonds issue	US\$	Fixed rate between 6.38% and 6.75% in 2022 and 2021	2031-2043	472,973	-	472,973	508,215	-	508,215
				¢ 799,241	74,457	873,698	923,371	88,859	1,012,230

The debt balance includes the deduction of an amount of US\$2.3 million (equivalent to ¢1,464) (2021: US\$2.7 million, equivalent to ¢1,722) corresponding to the transactions costs of a bond issue performed during the year ended December 31, 2021, which are amortized over the debt term using the interest rate method.

Note 30 includes information on Grupo ICE's exposure to interest rate, currency and liquidity risks.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**b. Loans payable**

Loans payable by currency and maturity are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
<u>Internal debt:</u>		
Colones	¢ 777,471	714,672
US dollars	-	7,255
<u>External debt:</u>		
Colones	205,851	221,277
US dollars	370,680	509,919
Yen	94,466	122,169
	¢ <u>1,448,468</u>	<u>1,575,292</u>
Non-current	¢ 1,356,137	1,460,736
Current	92,331	114,556
	¢ <u>1,448,468</u>	<u>1,575,292</u>

Loans payable in US dollars and in yen amount to US\$620 million and ¥20,841 million, respectively (2021: US\$804 million and ¥21,880 million, respectively).

Note 30 includes information about Grupo ICE's exposure to interest rate, currency and liquidity risks.

Loans payable by creditor are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
<u>Internal debt:</u>		
State-owned banks	¢ 777,471	721,927
<u>External debt:</u>		
Private banks	670,655	852,666
Other creditors	342	699
	¢ <u>1,448,468</u>	<u>1,575,292</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The characteristics of loans payable are as follows:

	Interest rate	Currency	Term
Internal debt	Variable rate from 3.16% to 9.70% (2021: variable rate from 5.55% to 9.70%)	¢	Maturing between August 31, 2025 and December 13, 2048
	Variable rate from 2.85% to 7.80% (2021: variable rate from 3.10% to 7.80%) and fixed rate ranging from 7.61% to 11.73% (2021: fixed rate ranging from 7.61% to 7.91%)	¢	Maturing between April 15, 2026 and March 30, 2035 (2021: between October 14, 2022 and December 31, 2031)
External debt	Variable rate from 1.60% to 10.31% (2021: variable rate from 1.24% to 7.61%) and fixed rate ranging from 0.70% to 6.40% in 2022 and 2021	US\$	Maturity between February 15, 2023 and March 15, 2044 (2021: between April 27, 2022 and March 15, 2044)
	Fixed rate ranging from 0.60% to 2.20% in 2022 and 2021	JPY	Maturing between April 20, 2026 and June 20, 2057

Loans payable for a total of ¢1,448,468 (2021: ¢1,575,292) include loans secured by promissory notes subscribed by ICE (no collateral) in the amount of ¢828,323 (2021: ¢864,066) and loans endorsed by the Government in the amount of ¢159,098 (2021: ¢218,018).

In addition, bank loans in the amount of ¢461,047 (2021: ¢493,208) are secured by land, buildings, machinery and equipment with a carrying amount of ¢808,567 (2021: ¢945,609) (see Note 8).

Generally, loan agreements establish a number of commitments regarding environmental, legal, financial, operational and business matters, among others, which the debtor must comply with. Those commitments are typically known as “covenants.” In the case of Grupo ICE, several of the agreements subscribed to date include “positive covenants” and “negative covenants”, which establish commitments that Grupo ICE must meet and restrictions or limitations on certain actions, usually requiring prior approval from the creditor. Financial covenants are usually related to financial ratios based on EBITDA (in some cases including lease payments), such as EBITDA coverage ratio, net debt to total assets, etc.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Some of the loan agreements include the following clauses:

- a) *Cross Default*: these clauses establish that upon execution of a loan agreement, Grupo ICE expressly and irrevocably accepts that noncompliance with payment obligations, with other terms and conditions of the loan agreement, or with loan agreements subscribed by Grupo ICE and other creditors will result in early termination of the corresponding loan and all other loan agreements in effect with the same creditor.
- b) *Pari Passu*: according to this clause, Grupo ICE recognizes that the obligations and guarantees under the corresponding agreements will have equal claim on payment rights (pari passu) with respect to other present or future obligations derived from Grupo ICE's debt (except for debt commitments given preference by law).

As of December 31, 2022, the following requests were processed and approved for loan agreements on which financial covenants were not met:

(i) Conditions of CAF loan agreements

On August 30, 2022, in note No.1250-637-2022, ICE requested CAF to waive the potential noncompliance with two of the indicators established in clause 6.01, subsections (l) and (m): the EBITDA/debt service ratio and the total liabilities/equity ratio, respectively, of Chapter VI Special Obligations of the agreement currently in effect between the entities. In note No. GIFTD 081-2022 dated December 13, 2022, CAF communicated to ICE that it granted the waiver for the aforementioned covenants for the year ended December 31, 2022 and until April 2023, which is when the loan agreement expires.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**c. Lease liabilities**

Lease liabilities are as follows:

	Currency	Interest rate	Maturity	December 31,					
				2022			2021		
				Non-current	Current	Total	Non-current	Current	Total
Lease liabilities	Colones	Variable rate between 11.14% and 11.21% (variable rate between 14.53% and 15.57% in 2021)	2023-2024 (2021: 2022-2023)	¢ 200	400	600	27	91	118
Lease liabilities	US dollars	Variable rate between 5.88% and 23.14% (variable rate between 4.90% and 23.14% in 2021) and fixed rate between 4.90% and 7.46%.	2023-2041 (2021: 2022-2033)	270,142	62,432	332,574	353,091	44,040	397,131
				¢ <u>270,342</u>	<u>62,832</u>	<u>333,174</u>	<u>353,118</u>	<u>44,131</u>	<u>397,249</u>

Note 30 includes information on Grupo ICE's exposure to interest rate, currency and liquidity risks.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

d. Reconciliation of changes in liabilities and cash flows from financing activities

	Bonds payable	Loans payable	Lease liabilities	Total
Balance as of December 31, 2021	¢ 1,012,230	1,575,292	397,249	2,984,771
<u>Changes due to cash flows from financing activities</u>				
New loans	-	102,492	10,803	113,295
Amortization	(95,182)	(171,509)	(53,345)	(320,036)
Total changes due to cash flows from financing activities	(95,182)	(69,017)	(42,542)	(206,741)
Effect of exchange rate fluctuations	(43,350)	(57,807)	(21,533)	(122,690)
Balance as of December 31, 2022	¢ <u>873,698</u>	<u>1,448,468</u>	<u>333,174</u>	<u>2,655,340</u>
<u>Other changes</u>				
Cost of capitalized loans (see Note 8)	¢ -	569	-	569
Interest expense (see Note 28)	71,466	59,102	94,090	224,658
Interest paid	(70,941)	(55,758)	(92,282)	(218,981)
Total other changes related to liabilities	¢ <u>525</u>	<u>3,913</u>	<u>1,808</u>	<u>6,246</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

	Bonds payable	Loans payable	Lease liabilities	Total
Balance as of December 31, 2020	¢ 1,100,880	1,567,211	414,344	3,082,435
<i>Changes due to cash flows from financing activities</i>				
New loans	268,684	248,859	-	517,543
Amortization	(398,957)	(252,534)	(41,258)	(692,749)
Total changes due to cash flows from financing activities	(130,272)	(3,675)	(41,258)	(175,206)
Effect of exchange rate fluctuations	41,623	11,756	16,643	70,022
Leases – right-of-use assets	-	-	7,520	7,520
Balance as of December 31, 2021	¢ <u>1,012,230</u>	<u>1,575,292</u>	<u>397,249</u>	<u>2,984,771</u>
<i>Other changes</i>				
Cost of capitalized loans (see Note 8)	¢ 3	1,121	-	1,124
Interest expense (see Note 28)	80,672	51,628	90,071	222,371
Interest paid	(77,123)	(51,274)	(89,329)	(217,726)
Total other changes related to liabilities	¢ <u>3,552</u>	<u>1,475</u>	<u>742</u>	<u>5,769</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 18. Leases**

Grupo ICE leases power plants, commercial spaces, tower spaces, telecom equipment and other assets. Power plant leases include the payment of fixed installments with no variation until the end of the contract and payments based on the use of the underlying asset (variable payments due to purchase of energy- Build-Own-Operate (BOO)). In conformity with IFRS 16, Grupo ICE did not recognize the BOO contracts with variable payments in the measurement of lease liabilities and right-of-use assets. Power plant leases have terms of 12 to 19 years. Leases bear interest at rates ranging from 5.88% to 23.14%. Grupo ICE is exposed to variations in lease payments that are based on the use of the underlying asset, which vary according to the water or wind available to generate energy.

Leases on commercial spaces have terms of three years and payments are adjusted every 12 months, in conformity with the final lease agreement. Leases of tower spaces have terms of five to ten years and lease payments are adjusted every 12 months. The leases of physical spaces in towers, which are used for the installation of equipment, have terms of three to five years and whose lease payments are adjusted on average every 3 months at an annual interest rate of 6.13%. Grupo ICE also leases warehouses, computer equipment, machinery and construction equipment. These lease agreements are short-term and/or low-value agreements. Grupo ICE has elected not to recognize right-of-use assets or the corresponding liabilities related to these leases.

As of December 31, 2022, ICE updated the right-of-use asset in the amount of ¢4,095 and the corresponding lease liability by ¢3,992, related to the lease agreement signed with Huawei (STB terminal equipment and licenses) (see Note 8).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)1. *Right-of-use assets*

Right-of-use assets are as follows:

	As of January 1, 2021	Additions and capitalizations	Depreciation	Disposals	Adjustments and transfers	As of December 31, 2021	Additions and capitalizations	Depreciation	Disposals	Adjustments and transfers	As of December 31, 2022
<u>Right-of-use assets</u>											
Lands	15,487	-	-	-	-	15,487	-	-	-	-	15,487
Buildings and facilities	3,815	106	(1,042)	-	(1,007)	1,872	2,557	(2,202)	805	114	3,146
Hydroelectric power generation	159,385	-	(4,184)	-	1,013	156,214	-	(3,706)	-	-	152,508
Geothermal power generation	47,245	-	(3,013)	-	-	44,232	-	(3,012)	-	-	41,220
Wind power generation	77,668	-	(10,021)	-	-	67,647	-	(9,592)	-	-	58,055
Substations	4,786	15	(285)	-	-	4,516	670	(287)	-	-	4,899
Transmission lines	4,486	-	(145)	-	-	4,341	-	(207)	-	487	4,621
Transport Access	-	-	-	-	-	-	10	(1)	-	-	9
Platforms	-	5,482	(2,055)	-	-	3,427	3,311	(1,882)	-	(182)	4,674
Furniture and equipment	-	2,963	(1,103)	-	-	1,860	783	(1,116)	-	-	1,527
Tower sites and lands	298	-	(145)	(4)	-	149	-	(128)	-	-	21
¢	12,482	-	(3,336)	-	-	9,146	4,878	(2,808)	-	-	11,216
	325,652	8,566	(25,329)	(4)	6	308,891	12,209	(24,941)	805	419	297,383

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)2. *Amounts recognized in profit or loss*

	As of December 31,	
	2022	2021
Interest on lease liabilities (Notes 17d and 28)	¢ 94,090	90,071
Short-term leases and leases of low-value assets (Note 26)	4,041	9,003
Variable lease payments based on the use of the underlying asset (Note 26)	49,092	57,383
	¢ <u>147,223</u>	<u>156,457</u>

3. *Amounts recognized in the statement of cash flows*

	As of December 31,	
	2022	2021
Total cash outflows for leases	¢ <u>145,627</u>	<u>130,587</u>

4. *Extension options*

For minor leases (commercial spaces and tower sites), although there are extension options (renewal), the probability of executing those options is conditioned by contractual, commercial and financial matters that Grupo ICE assesses prior to renewal.

Where applicable, terms are set up for 36 months, automatically renewable for equal terms upon maturity, unless the lessor or lessee gives a notice three months prior to maturity that it wishes to terminate the lease. This means that extensions are optional and there is uncertainty as to whether they will be exercised and as to the term of the extension.

For major lease agreements (such as power plants), there is reasonable certainty that the purchase option will be exercised and for some leases the transfer of the asset at the end of the agreement is contractually established. Consequently, for all major leases, the depreciation of right-of-use assets derived from these contracts is calculated based on the useful lives set by Grupo ICE.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 19. Employee benefits**

Employee benefits are as follows:

	As of December 31,					
	2022			2021		
	Non-current	Current	Total	Non-current	Current	Total
Severance benefits (a)	¢ 60,661	7,485	68,146	86,671	6,398	93,069
ICE Guarantee and Savings Fund (b):						
Employer contribution	390,205	46,630	436,835	382,071	42,655	424,726
ICE Employer obligations (c):						
Vacations	-	22,130	22,130	-	21,248	21,248
Back-to-school bonus	-	19,487	19,487	-	19,907	19,907
Statutory Christmas bonus	-	1,561	1,561	-	1,600	1,600
Third and fifth biweekly salary	-	812	812	-	863	863
Occupational hazard insurance	-	465	465	-	453	453
	¢ <u>450,866</u>	<u>98,570</u>	<u>549,436</u>	<u>468,742</u>	<u>93,124</u>	<u>561,866</u>

Defined benefit plans

As of December 31, 2022, of the total obligation for severance benefits, the amount of ¢64,927 correspond to permanent employees (2021: ¢90,572); ¢3,219 to project employees (2021: ¢4,184) for a total of ¢68,146 (2021: ¢93,069). As of December 2021, the amount of -¢1,687 was recorded for downsizing, corresponding to payments made in 2021 for downsizing in 2020. Of these amounts, the current portion amounts to ¢7,485 (2021: ¢6,398) and the non-current portion amounts to ¢60,661 (2021: ¢86,671).

a. Grupo ICE severance benefits

Starting December 2018, the *Law to Strengthen Public Finances* (Law No. 9635) entered into effect. Transition provision XXVII, Chapter I, Section V of this law set forth that for employees with a right to severance benefits acquired through legal instruments other than collective agreements, once the law entered into effect on December 4, 2018, those with at least 12 years of service would have the right to receive up to a maximum of 12 years of severance benefits. All other employees would have the right to receive up to a maximum of eight years of severance benefits. Previously, ICE followed the “*Personnel Statute*”, which established in Chapter XXXVII the rules in effect for the payment of severance benefits for termination of the employment contract (with employer liability), according to the years of service and as established in said regulations. The subsidiary CNFL, with 20 years of severance benefits according to the Board of Labor Relations, Meeting No. 2149 held on February 17, 2021, is excluded.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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Until December 31, 2017, the sum of years recognized before and after the *Employee Protection Law* became effective could not exceed 24 years of severance benefits, corresponding to a period of 40 years of continuous service at ICE. Starting in 2018, the cap was modified when the aforementioned Law No. 9365 became effective.

In January 2022, the board of directors of CCSS approved an amendment to the Regulations for Disability, Old Age and Death (RIVM), which eliminates early retirement for men, who can retire only once they reach 65 years old. Women will have the early retirement option at 63 years old, not at 60. This amendment to the Costa Rican pension regime will enter into effect on January 11, 2024.

The provisions set forth in the Staff Regulations include the following:

- i. An employee whose employment contract is terminated with the recognition of severance benefits will have the right to the payment of such benefits based on seniority.
- ii. The payment of severance benefits is a compound calculation that considers whether the employees were hired before or after the *Employee Protection Law* as of March 2001, pursuant to the following criteria:
 - a. The time of service before the *Employee Protection Law* will be recognized in the proportion of one-month salary for six months to one year of service. When the time of service exceeds eight years, one-month salary will be recognized for every two years of service after the first eight years.
 - b. The time of service after the *Employee Protection Law* will be paid with the amount for salary days included in amended Article 29 of the Labor Code and according to a scale established therein. In no event shall such severance benefits be paid beyond the last eight years of employment. This applies to personnel hired under payroll modality 08 established in ICE's Autonomous Labor Regulations (RAL). Until December 31, 2017, for the rest of the employees, severance benefits are paid up to a maximum of 24 years, corresponding to 40 years of service, in accordance with the statute. Severance benefits shall be paid even if the worker immediately starts working for another employer.

ICE's net obligation related to employee benefit plans (severance) is calculated separately for each plan, estimating the amount of the future benefit which employees have accrued in the current and prior periods, discounting this amount and deducting the fair value of the plan assets (advance severance payments, if any).

The calculation of employee benefits is performed annually by a qualified actuary, using the projected unit credit method, also known as the accumulated benefits in proportion to the services rendered method or the benefits for years of service method. When the calculation results in a possible asset for ICE, the recognized asset is limited to the present value of economic benefits available as future plan reimbursements or decreases in future contributions to the plan. To calculate the present value of economic benefits, any minimum financing requirement must be taken into consideration.

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The new measurements of the net defined benefit obligation (employee benefits), which includes actuarial gains and losses, returns on plan assets, if any (excluding interest), and the effect of the asset ceiling, if any (excluding interest), are recognized immediately in other comprehensive income. ICE determines the interest expense of the net employee benefit liability for the period by applying the discount rate used to measure the employee benefit liability at the beginning of the year to the net employee benefit liability, considering any change in the employee benefit liability during the period as a result of contributions made and payment of benefits. The interest expense and other expenses related to employee benefit plans are recognized in profit or loss.

When there is a modification or decrease in plan benefits, the resulting modification related to past service or the gain or loss due to the decrease is immediately recognized in profit or loss. ICE recognizes gains or losses on the payment of employee benefits when it occurs.

The amount estimated for the payment of severance to employees within one year or less is booked as a current provision for employee benefits (severance), according to the results of the actuarial studies of such benefit.

The calculation of the severance benefit obligations for ICE and its subsidiaries CNFL and RACSA are as follows:

Instituto Costarricense de Electricidad (ICE)Movement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit obligation (severance) and its components, as defined by an actuarial study, with respect to permanent employees (excluding project employees) is as follows:

	As of December 31,	
	2022	2021
<u>Reconciliation of the defined benefit obligation</u>		
Balance at beginning of year	¢ 76,988	78,527
<i>Expense (income) recognized in profit or loss:</i>		
Current service cost	1,581	2,367
Prior-services cost	(8,464)	-
Net interest on the defined benefit obligation	4,790	7,751
	<u>(2,093)</u>	<u>10,118</u>
Actuarial loss (gain) recognized in other comprehensive income (OCI) - (i)	<u>(5,587)</u>	<u>(3,518)</u>
Severance benefits paid by ICE	<u>(9,245)</u>	<u>(8,139)</u>
Balance at end of year	¢ <u>60,063</u>	<u>76,988</u>

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ICE's obligation for severance benefits is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method."

(i) As of and for the year ended December 31, actuarial losses (gains) are as follows:

	For the year ended December 31,	
	2022	2021
Loss (gain) on demographic assumptions	¢ -	(38)
Loss (gain) loss on financial assumptions	(12,595)	4,690
Loss (gain) on experience adjustments	7,008	(8,170)
	¢ <u>(5,587)</u>	<u>(3,518)</u>

(ii) Actuarial assumptions

The main actuarial assumptions as of the reporting date are as follows:

	As of December 31,	
	2022	2021
Nominal discount rate	9.28%	6.62%
Expected salary increase rate	1.76%	1.23%
<i>Average retirement age of current employees (years):</i>		
Men	65	62
Women	63	60
Long-term inflation rate	3.5%	3%

Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0,5% variation (positive or negative) in the obligation amount. The intermediate value is what ICE's management selected to perform the calculations.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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			As of December 31, 2022		
			Discount rate variation		
			8.78%	9.28%	9.78%
Variation in salary increase rate	1.26%	¢	59,573	57,041	54,680
	1.76%	¢	62,796	60,063	57,517
	2.26%	¢	66,254	63,301	60,554

The minimum amount of the obligation (¢54,680) occurs if the salary increase rate is the lowest in the sensitivity range (1.26%) and the discount rate is the highest (9.78%). The maximum amount of the obligation (¢66,254) occurs in the opposite case. The calculated amount (¢60,063) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2021		
			Discount rate variation		
			6.12%	6.62%	7.12%
Variation in salary increase rate	0.73%	¢	76,436	73,325	70,426
	1.23%	¢	80,342	76,988	73,865
	1.73%	¢	84,528	80,907	77,541

The minimum amount of the obligation (¢70,426) occurs if the salary increase rate is the lowest in the sensitivity range (0.73%) and the discount rate is the highest (7.12%). The maximum amount of the obligation (¢84,528) occurs in the opposite case. The calculated amount (¢76,988) falls in the mid-range of this sensitivity analysis.

As of December 31, 2022, the average retirement period was 17.08 years (2021: 15.63 years) and the average employee seniority was 19.6 years (2021: 18.69 years), with an average age of 46.8 years (2021: 45.93 years).

CNFLMovement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit obligation (severance benefits) and its components, as defined by an actuarial study, is as follows:

(Continued)

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Notes to the Consolidated Financial Statements
(In millions of colones)

	As of December 31,	
	2022	2021
<u>Reconciliation of the defined benefit obligation</u>		
Balance at beginning of year	¢ 13,242	2,849
<i>Expense (income) recognized in the statement of profit or loss:</i>		
Current service cost	1,567	104
Prior-services cost	(2,771)	7,835
Net interest on the defined benefit obligation	790	213
	(414)	8,152
Actuarial loss (gain) recognized in other comprehensive income (OCI) - (i)	(5,588)	3,285
Severance benefits paid by CNFL	(2,608)	(1,044)
Balance at end of year	¢ 4,632	13,242

CNFL's obligation for severance benefits is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method".

(i) As of and for the year ended December 31, actuarial losses (gains) are as follows:

	For the year ended December 31,	
	2022	2021
Gain on demographic assumptions	¢ (34)	(17)
Loss (gain) on financial assumptions	(3,572)	2,658
Loss (gain) on experience adjustments	(1,982)	644
	¢ (5,588)	3,285

(ii) Actuarial assumptions

The main actuarial assumptions as of the reporting date are as follows:

	As of December 31,	
	2022	2021
Nominal discount rate	9.28%	6.62%
Expected salary increase rate	3.15%	3.60%
<i>Average retirement age of current employees (years):</i>		
Men	65	62
Women	63	60
Long-term inflation rate	3%	3%

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0.5% variation (positive or negative) in the obligation amount. The midrange value was chosen by the CNFL's management to perform the calculations.

		As of December 31, 2022		
		Discount rate variation		
		8.78%	9.28%	9.78%
Variation in salary increase rate	2.65%	¢ 4,603	4,166	3,734
	3.15%	¢ 5,134	4,632	4,164
	3.65%	¢ 5,741	5,164	4,650

The minimum amount of the obligation (¢3,734) occurs if the salary increase rate is the lowest in the sensitivity range (2.65%) and the discount rate is the highest (9.78%). The maximum amount (¢5,741) occurs in the opposite case. The calculated amount (¢4,632) falls in the mid-range of this sensitivity analysis.

		As of December 31, 2021		
		Discount rate variation		
		6.12%	6.62%	7.12%
Variation in salary increase rate	3.10%	¢ 13,212	12,247	11,375
	3.60%	¢ 14,316	13,242	12,279
	4.10%	¢ 15,548	14,343	13,271

The minimum amount of the obligation (¢11,375) occurs if the salary increase rate is the lowest in the sensitivity range (3.10%) and the discount rate is the highest (7.12%). The maximum amount (¢15,548) occurs in the opposite case. The calculated amount (¢13,242) falls in the mid-range of this sensitivity analysis.

As of December 31, 2022, the average retirement period was 17.11 years (2021: 17.6 years) and the average employee seniority was 18.03 years (2021: 18.08 years), with an average age of 44.44 years (2021: 44.41 years).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)RACSAMovement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit liability (severance benefits) and its components, as defined by an actuarial study, is as follows:

	As of December 31,	
	2022	2021
<u>Reconciliation of the defined benefit obligation</u>		
Balance at beginning of year	¢ 342	217
<i>Expense (income) recognized in profit or loss for the year:</i>		
Current service cost	170	217
Prior-services cost	(48)	-
Net interest on the defined benefit obligation	18	1
	<u>140</u>	<u>218</u>
Actuarial loss (gain) recognized in other comprehensive income (OCI) - (i)	(103)	331
Severance benefits paid by RACSA	(146)	(424)
Balance at end of year	¢ <u>233</u>	<u>342</u>

RACSA's severance benefits obligation is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method".

(i) As of and for the year ended December 31, actuarial losses (gains) are as follows:

	For the year ended December 31,	
	2022	2021
Loss (gain) on demographic assumptions	¢ 12	(1)
Loss (gain) on financial assumptions	(213)	168
Loss (gain) on experience adjustments	98	164
	¢ <u>(103)</u>	<u>331</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(ii) Actuarial assumptions

The main actuarial assumptions as of the reporting date are as follows:

	As of December 31,	
	2022	2021
Nominal discount rate	9.26%	6.51%
Expected salary increase rate	3.56%	4.13%
<i>Average retirement age of current employees (years):</i>		
Men	65	62
Women	63	60
Long-term inflation rate	5.06%	3%

Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0.5% variation (positive or negative) in the obligation amount. The intermediate value is what RACSA's management selected to perform the calculations.

		As of December 31, 2022		
		Discount rate variation		
		8.76%	9.26%	9.76%
Variation in salary increase rate	3.06% ¢	234	218	204
	3.56% ¢	251	233	217
	4.06% ¢	270	250	231

The minimum amount of the obligation (¢204) occurs if the salary increase rate is the lowest in the sensitivity range (3.06%) and the discount rate is the highest (9.76%). The maximum amount (¢270) occurs in the opposite case. The calculated amount of (¢233) is at the mid-range of this sensitivity analysis.

		As of December 31, 2021		
		Discount rate variation		
		6.01%	6.51%	7.01%
Variation in salary increase rate	3.63% ¢	347	303	268
	4.13% ¢	398	342	300
	4.63% ¢	469	392	338

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The minimum amount of the obligation (¢268) occurs if the salary increase rate is the lowest in the sensitivity range (3.63%) and the discount rate is the highest (7.01%). The maximum amount (¢469) occurs in the opposite case. The calculated amount of (¢342) is at the mid-range of this sensitivity analysis.

As of December 31, 2022, the average retirement period was 12 years (2021: 24.7 years) and the average employee seniority was 8.7 years (2021: 8.5 years), with an average age of 37 years (2021: 36.39 years).

Defined contribution plans**b. Guarantee and Savings Fund**

The Guarantee and Savings Fund was created through Law No. 3625 of December 16, 1965, which adds Article 17 to Law No. 449 dated April 8, 1949, whereby ICE was created. In conformity with this law, such reserves must be used for severance payments and for the guarantee and savings fund for permanent employees. Furthermore, ICE shall continue to make contributions at an amount no less than that contributed by employees to the fund. Funds contributed by ICE are of its property and shall be used for the proposed objectives, in conformity with the regulations issued by the board of directors for this purpose.

In 1988, the ICE Supplemental Pension Fund was added through an arbitration award issued by the Superior Court on Labor Matters. It began operating in 1990 and was given a legal basis in February 2000 by the *Employee Protection Law* (Law No. 7983). In 2008, the *Law on Strengthening and Modernization of Public Entities in Telecommunication Sector* (Law No. 8660) entered into effect.

The Guarantee and Savings Fund includes the following employee benefits:

- Guarantee and Savings Fund
- Supplemental Pension Fund

Benefit – Guarantee and Savings Fund

The Guarantee and Savings Fund was created to provide support to employees. It is funded by both employer and employee contributions. ICE makes a monthly contribution equivalent to 5% of the employees' gross salary (6% until June 2016) and employees make a monthly contribution of 5% of their gross salary.

These contributions are managed by the Guarantee and Savings Fund. After 20 years of service at ICE, employees who retire have the right to the balance reflected in their individual account and ICE's contributions.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Benefit – Supplemental Pension Fund

The main goal of the Supplemental Pension Fund is to contribute to employee welfare by providing an additional amount to any pension fund of the public sector. Every month, ICE transfers an amount equivalent to 3.5% of the employees' monthly gross salary. The returns derived from the management of the contribution amount are capitalized to the supplemental pension system (2.5% of the returns) and to the severance benefits obligation fund for strengthening purposes (the remaining 1% of the returns).

Personal and institutional contributions

As indicated above, the Guarantee and Savings Fund comprises two contributions, one made by the employee, equivalent to 5% of the monthly salary earned, and another one made by ICE (employer contribution), equivalent to 5% of the employees' monthly salary. These contributions may be used by employees as retirements savings, to pay off debt, to secure loans or to be withdrawn in the event of termination of employment with ICE.

The Supplemental Pension Fund is in turn composed of two contributions, one made by the employee, equivalent to 1% of the monthly salary, and another one made by ICE (employer contribution), equivalent to 4.5% of the employees' monthly salary. In the event of early separation of employment with ICE, accrued amounts will be managed in conformity with that set forth in Law No. 7983.

Since both plans are defined contribution plans, ICE's obligation is limited solely to the contribution that it agreed to make. Funds are managed by the Guarantee and Savings Fund, so that the final employee benefit amount is determined by the amount of the contributions paid by ICE plus the returns therefrom.

c. Employee benefits expense:

The employee benefits expense is as follows:

	As of December 31,	
	2022	2021
Salaries	¢ 203,828	215,282
Social security contributions	18,706	19,805
Defined contribution plans	20,883	21,777
Post-employment benefit expenses	8,814	13,401
	¢ <u>252,231</u>	<u>270,265</u>

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 20. Accounts payable**

Accounts payable are as follows:

	As of December 31,					
	2022			2021		
	Non-current	Current	Total	Non-current	Current	Total
Government	¢ 929	6,006	6,935	1,010	5,920	6,930
Value-added tax and withholdings payable	-	11,979	11,979	-	16,008	16,008
Accounts due to employees	152,697	37,483	190,180	152,329	37,997	190,326
Commercial vendors	-	28,735	28,735	-	32,497	32,497
	¢ <u>153,626</u>	<u>84,203</u>	<u>237,829</u>	<u>153,339</u>	<u>92,422</u>	<u>245,761</u>

Accounts due to employees correspond to employee contributions to the Guarantee and Savings Fund (regime) and to the Supplemental Pension Fund (5% and 1%, respectively) of their monthly salary. Those contributions are managed and custodied by ICE through the Guarantee and Savings Fund (see Note 19).

Note 30 includes information about Grupo ICE's exposure to foreign currency and liquidity risks.

Note 21. Contract liabilities

Contract liabilities are as follows:

	As of December 31,					
	2022			2021		
	Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢ -	2,638	2,638	-	2,648	2,648
Postpaid services (2)	-	7,633	7,633	-	7,860	7,860
Security deposits (3)	61,769	-	61,769	65,758	-	65,758
Total	¢ <u>61,769</u>	<u>10,271</u>	<u>72,040</u>	<u>65,758</u>	<u>10,508</u>	<u>76,266</u>

The nature of the main liabilities derived from contracts with customers is as follows:

(1) Prepaid mobile services:

These services correspond to prepaid income related to the sale of prepaid mobile services that have not been used up by customers as of the cut-off date. Income from prepaid mobile services is recognized in the consolidated statement of financial position when the money is received by Grupo ICE from customers and wholesalers and it is recognized in the consolidated statement of profit or loss as the end users use up the services.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(2) Postpaid services:

Postpaid services correspond to prepaid income related to fixed and mobile services, the recognition of customer claims for invoices already paid, or customers that make advance payments which are settled in subsequent months. This also includes real estate services (construction work contracts related to telecom infrastructure) and exchanges (mainly recognition of sponsorships). Income from prepaid mobile services is recognized in the consolidated statement of financial position when the money is received by Grupo ICE from customers and wholesalers and it is recognized in the consolidated statement of profit or loss as the end users use up the services.

(3) Security deposits:

The balance of security deposits in the amount of ¢61,769 (2021: ¢65,758) corresponds mainly to ¢42,387 (2021: ¢41,349) from the Electricity Segment related to the charge made to clients, equivalent to one month's electricity billing, to guarantee payment of the service and ¢19,382 (2021: ¢24,409) from the Telecom Segment, corresponding to deposits requested from customers to guarantee the rendering of services, for mobile telephony, fixed telephony and roaming.

Note 22. Provisions

Provisions are as follows:

	As of December 31,	
	2022	2021
Litigation provision (Note 31) (1)	¢ 25,296	3,379
Provision for mobile terminal warranties (2)	1,761	1,006
Other	510	2,408
	<u>27,567</u>	<u>6,793</u>
Less – reclassification of non-current portion	(3,799)	(2,338)
	<u>¢ 23,768</u>	<u>4,455</u>

Movement in provisions is as follows:

	As of December 31, 2022			
	Litigation provision	Provision for mobile terminal warranties	Other	Total
As of December 31, 2021	¢ 3,379	1,006	2,408	6,793
Increase for the year	21,929	1,140	4,353	27,422
Used during the year	(12)	(385)	(6,251)	(6,648)
As of December 31, 2022	<u>¢ 25,296</u>	<u>1,761</u>	<u>510</u>	<u>27,567</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

		As of December 31, 2021			
		Litigation provision	Provision for mobile terminal warranties	Other	Total
As of December 31, 2020	¢	3,536	1,152	5,047	9,735
Increase for the year		24	367	3,936	4,327
Used during the year		(181)	(513)	(6,575)	(7,269)
As of December 31, 2021	¢	<u>3,379</u>	<u>1,006</u>	<u>2,408</u>	<u>6,793</u>

A description of the provision accounts is provided below:

(1) Litigation provision

The litigation provision corresponds to an estimate of the probability of an outflow, based on a professional judgement and on the facts and circumstances of the case at the time of analysis. A litigation provision is booked if the probability of existence of an obligation is greater than or equal to 50%. Additionally, Grupo ICE should consider if, due to a past event, it has no realistic alternative but to pay the obligation, taking into account all available evidence and professional judgment.

(2) Provision for mobile terminal warranties

The provision for mobile terminal warranties includes the expected cost of obligations, under local regulations on the sale of assets, according to the best estimate of the outflows required to settle the obligations with customers, made by the corresponding technical and financial areas. Grupo ICE expects to settle most of this provision during the following year.

Note 23. Other liabilities

Other liabilities are as follows:

		As of December 31,	
		2022	2021
Transfer of spare parts – materials (1)	¢	202	9,760
Deposits from private individuals or companies		4,089	8,568
Other		5,627	9,442
	¢	<u>9,918</u>	<u>27,770</u>

(1) Transfer of spare parts – materials:

Correspond to a transfer in favor of Grupo ICE of the costs related to spare parts, assets and tools required for maintenance of the Toro III Power Plant. This income is booked in the consolidated statement of profit or loss when the contractually established maintenance services are rendered and inventories assigned to Grupo ICE are used.

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In 2022, lease agreements and trust agreements for the Garabito Thermal Power Plant were terminated. Consequently, the existing liability balance related to the reception of inventories property of ICE, when those contracts were in effect, led to its immediate realization as income in the statement of profit or loss.

Note 24. Guarantees received

Guarantees received in the amount of ¢83,771 (2021: ¢99,724) correspond to performance bonds, guarantees provided by collection agents and bid bonds. A description is provided below:

	As of December 31,	
	2022	2021
Guarantees received:		
Performance bonds (1)	¢ 69,251	88,604
Collection agents (2)	10,035	9,881
Bid bonds (3)	3,741	441
Security deposits	744	798
	¢ <u>83,771</u>	<u>99,724</u>

(1) Performance bonds

Performance bonds are received by Grupo ICE so that the goods and services offered by a supplier are delivered or rendered in accordance with the agreed terms and that, in the event of non-compliance by the supplier, Grupo ICE will be compensated by means of the performance bond provided.

(2) Collection agents

Collection agents correspond to guarantees that Grupo ICE receives from external collection agents to ensure the recovery of public funds held in custody by those agents for a specified period.

(3) Bid bonds

Bid bonds correspond to bonds that guarantee the good faith participation of bidders of goods and services in Grupo ICE's tender processes and, if awarded the contract, that the bidders will comply with the procedures established in the corresponding award.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 25. Revenue**a) Revenue streams

Grupo ICE generates revenue primarily from the sale of electric energy and telecom services. Other sources of revenue include minor construction and engineering services.

The flow of revenue from contracts with customers is as follows:

	For the year ended December 31,	
	2022	2021
Electricity services	¢ 814,469	728,646
Telecom services	574,441	564,995
	<u>1,388,910</u>	<u>1,293,641</u>
Other income (Note 27):		
Construction services	4,618	9,907
Engineering services	8,062	5,518
Infrastructure operation and maintenance services	2,009	1,919
	<u>14,689</u>	<u>17,344</u>
	<u>¢ 1,403,599</u>	<u>1,310,985</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with Grupo ICE's reportable segments (see Note 33).

	Electricity Segment		Telecom Segment		Total	
	2022	2021	2022	2021	2022	2021
Geographical markets:						
Local	¢ 773,934	697,428	571,579	562,776	1,345,513	1,260,204
Foreign	40,535	31,218	2,862	2,219	43,397	33,437
	¢ <u>814,469</u>	<u>728,646</u>	<u>574,441</u>	<u>564,995</u>	<u>1,388,910</u>	<u>1,293,641</u>
Products/lines of service:						
Electricity	¢ 721,160	638,900	-	-	721,160	638,900
Transmission charges	62,009	66,453	-	-	62,009	66,453
Public lighting	18,764	19,876	-	-	18,764	19,876
Management and other services	12,536	3,417	-	-	12,536	3,417
Telecom	-	-	574,441	564,995	574,441	564,995
	¢ <u>814,469</u>	<u>728,646</u>	<u>574,441</u>	<u>564,995</u>	<u>1,388,910</u>	<u>1,293,641</u>
Timing of revenue recognition:						
Services transferred over time	¢ 814,469	728,646	482,933	495,017	1,297,402	1,223,663
Products transferred at a point in time	-	-	91,508	69,978	91,508	69,978
	814,469	728,646	574,441	564,995	1,388,910	1,293,641
Other income	14,689	17,344	-	-	14,689	17,344
	¢ <u>829,158</u>	<u>745,990</u>	<u>574,441</u>	<u>564,995</u>	<u>1,403,599</u>	<u>1,310,985</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)c) Contract balances

The following table provides information about accounts receivable and contract liabilities from contracts with customers:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Trade receivables (Note 15)	¢ 235,633	231,556
Contract liabilities (Note 21)	¢ (72,040)	(76,266)

An amount of ¢5,667 included in contractual obligations as of December 31, 2021, has been recognized as revenue in 2022 (2021: ¢6,603).

d) Transaction price assigned to remaining performance obligations

The following table includes revenue expected to be recognized in the future related to the performance of obligations not yet satisfied (or not satisfied at all) as of the reporting date for the Telecom Segment:

	<u>2023</u>	<u>2022</u>
Mobile telecom services	¢ <u>59,703</u>	<u>35,064</u>

All considerations included in the contracts are included in the aforementioned amounts.

Grupo ICE applies the practical expedient indicated in paragraph 121 of IFRS 15 and it does not disclose information on obligations pending performance with original maturities of one year or less.

e) Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. Grupo ICE recognizes revenue when it transfers control over a good or service to a customer. At the date of inception of each contract, Grupo ICE determines whether it will satisfy the performance obligations over time or at a point in time.

The Electricity Segment generates income mainly from generation, transmission and distribution of electricity services. The Law on the Costa Rican Public Service Regulatory Authority (ARESEP) (Law No. 7593) of August 9, 1996 establishes that the Regulatory Authority will set prices and rates of public services, specifically with respect to the generation, transmission, distribution and sale of electricity.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The Telecom Segment generates income mainly from mobile services (prepaid and postpaid), data and IP services including internet and TV, sale of terminals and devices, fixed and universal telephone services and interconnection services. Mobiles services and goods may be sold separately (independently) or combined, in packages.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, both for the Electricity and Telecom Segments.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policy
Sale of electricity services	Revenue from the sale of electricity services includes a single performance obligation (sale of electricity) since Grupo ICE has evaluated that contracts with customers do not include the supply of other goods or services. Control, including ownership and risk of loss related to electricity, is transferred to the customer upon delivery of electricity at a single point within the electricity network. Invoices are payable within 30 days and there is no significant financial component.	The performance obligation related to the delivery of electricity is satisfied over time, when the customer receives and simultaneously consumes the benefits related to the electricity service provided. Revenue is recognized as electricity services are rendered, based on monthly billing cycles.
Sale of Telecom services	Revenue from the sale of telecom services includes phone, voice, data and messaging services. Services are invoiced and paid on a monthly basis and there is no significant financial component. The performance obligations related to the delivery of these services are satisfied over time, when the customer receives and simultaneously consumes the benefits related to telecom services, which are identified in different obligations for the different types of services (mobile, fixed, data, messaging, access costs, etc.).	For bundled packages, Grupo ICE accounts for individual products and services separately if they are distinct; i.e. if a product or service can be identified separately from other products or services in the bundled package and if a customer can benefit from the good or service by itself. The consideration is allocated between the separate products and services in a bundled package based on their stand-alone selling prices. The stand-alone selling prices are determined based on a list of selling prices at which ICE sells the mobile phones, terminals and other telecom services. ICE recognizes this revenue as the services are rendered.
Mobile terminals	The performance obligation for mobile terminals is recognized as income at a specific point in time, when control of the asset is transferred to the client, which occurs when the customer signs the agreement and takes ownership of the product. For mobile devices sold separately, customers pay the full amount at the point of sale. For mobile devices sold as part of a combined package, customers usually pay the same amount per month, for a period of 12 to 24 months.	ICE recognizes revenue from the sale of mobile terminals when control of the asset is transferred, which occurs when the customer signs the agreement and takes ownership of the product.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policy
	A significant financing component is recognized as finance income for plans with terms more than one year (usually 24 months). Grupo ICE applies the practical expedient of not separating the financing component for terminals sold with a term of 12 months or less.	

Grupo ICE does not negotiate warranties separately or offer extended warranties to its customers on the sale of mobiles devices or terminals. The terms of the warranties are generally contractually established by the vendors of those assets and in conformity with local legislation. These warranties are generally for a maximum term of one year. Grupo ICE books a provision in its financial statements to address future claims for this concept (see Note 22).

Note 26. Operating costs and expenses

Operating costs and expenses are as follows:

	Operating costs		Operating expenses	
	For the year ended			
	December 31,			
	2022	2021	2022	2021
Depreciation	¢ 299,168	299,886	13,792	13,727
Services	143,729	148,786	63,366	65,709
Products, materials and spare parts	94,703	78,215	8,495	7,122
Salaries and employee benefits	93,806	96,998	139,402	151,541
Service centers	91,240	87,983	22,225	31,746
Leases (Note 18)	50,001	62,167	3,132	4,219
Amortization of intangible assets	13,376	12,428	8,730	11,155
Loss on disposal of assets	10,363	20,282	9,381	1,384
Fuels for thermal generation	8,266	721	-	-
Loss due to impairment of accounts receivable	-	-	10,266	10,999
Import of energy	5,198	388	-	-
Other	26,214	2,064	39,204	42,010
	¢ 836,064	809,918	317,992	339,612

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 27. Other income**

Other income is as follows:

	For the year ended	
	December 31,	
	2022	2021
Construction services (1)	¢ 4,618	9,907
Engineering services (1)	8,062	5,518
Donations	2,316	3,056
Infrastructure operation and maintenance service	2,009	1,919
Communication services	1,824	1,777
Administrative sanctions (execution of guarantees)	2,223	854
Insurance claim income (2)	5,218	634
Application of security deposits	464	539
Gain on transfer of assets (3)	19,517	1,886
Sale of waste	186	211
Other	21,588	13,501
	¢ <u>68,025</u>	<u>39,802</u>

- (1) Construction and engineering services include invoices for percentage of completion or completion of works, design or other specialized services provided by ICE to third parties and related to projects in the construction stage.
- (2) Income from insurance compensation includes the payment of the claim under the Construction All-Risk Policy for the events of the Spillway and Unit 1 of the Reventazón Hydroelectric Power Plant in the amount of ¢4,591.
- (3) Gains on the transfer of assets include the amount of ¢19,316, pursuant to the contracts for connection to the transmission network formalized by ICE with the companies Bridgestone Costa Rica, S.A. and APM Terminals Moín, S.A. For Bridgestone, assets correspond to the La Rivera transmission substation, expansion No. 5 of the San Miguel – La Caja Belén transmission line, and a lot of spare parts. For APM Terminals Moín, assets correspond to the Río Blanco Transmission Substation and Extension No. 2 of the Río Moín - Moín transmission line.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 28. Finance income and finance costs**

Finance income and finance costs are as follows:

	For the year ended December 31,	
	2022	2021
Finance income under the effective interest method	¢ 35,266	33,378
Finance costs (1)	(240,135)	(248,898)
Foreign exchange differences – net (2)	88,669	(61,840)
	<u>¢ (116,200)</u>	<u>(277,360)</u>

(1) Finance costs are as follows:

	For the year ended December 31,	
	2022	2021
Interest on leases (Note 17d and Note 18)	¢ 94,090	90,071
Interest on bonds payable (Note 17d)	71,466	80,672
Interest on loans payable (Note 17d)	59,102	51,628
Interest on other liabilities	11,613	23,837
Loss on impairment of investments	3,864	2,690
	<u>¢ 240,135</u>	<u>248,898</u>

(2) As a result of transactions in foreign currency and the valuation of monetary assets and liabilities denominated in foreign currency, during the year ended December 31, 2022, foreign exchange gains and losses in the amount of ¢377,115 and ¢288,446, respectively, were recognized, for net gain of ¢88,669 (2021: foreign exchange gains of ¢157,614 and losses of ¢219,454, for net loss of ¢61,840). The exchange rate used in the valuation of monetary assets and liabilities in foreign currency as of the reporting date was ¢597.64 (2021: ¢642.66).

Note 29. Tax regulations(a) Tax obligations

Grupo ICE is subject to tax obligations governed by the *Income Tax Law* (Law No. 7092) and amendments thereto, the Regulations to the Income Tax Law and amendments thereto, the *Value-added Tax Law* (Law No. 6826) and amendments thereto, the Regulations to Value-added Tax Law, the *General Customs Law* and regulations and amendments thereto, the Decree – *Law to Create ICE* (Law No. 449), the *Law on Strengthening and Modernization of Public Telecommunication Companies* (Law No. 8660), the *General Telecommunications Law* (Law No. 8642), the *Law to Strengthen Public Finances* (Law No. 9635) and the regulations to title IV of Law No. 9635, named Tax Responsibility of the Republic.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(b) Income tax

The Law of Government Institutions Subject to Payment of Income Tax (Law No. 7722) stipulates that: “surplus constitutes taxable income and shall be calculated as gross income less costs, operating expenses and investment reserves or development funds that are necessary and relevant to production of that income.”

ICE is subject to income tax payment to the extent that it obtains profit from its activities. Article 17 of Executive Order No. 449 to create ICE states that “ICE’s financial policy will be to capitalize its net profit arising from the sale of electricity (and from any other profit-generating source) to finance and execute electrification plans and to promote the electricity industry.” Article 13 of Law No. 8660 also sets forth that “in the case of the distribution of profits in favor of ICE or its companies, arising from the rendering of services or sale products related to electricity, telecommunications, infocommunications and information services, as well as the sale of other products and services developed and sold by ICE or its companies or through alliances with third parties, profits must be capitalized as development reserves to meet its ends.”

The Law on Strengthening and Modernization of Public Telecommunication Companies (Law No. 8660), indicates that when ICE and its companies act as operators or vendors in competitive national markets of telecom and electricity services and products, they shall be subject to the payment of income tax and sales tax, excluding basic landline service from income tax payment, while in all other cases the exemptions granted in the decree of Law No. 449, dated April 8, 1949, shall remain in effect, in addition to any other granted by the law.

ICE must capitalize the total net profit obtained each year to the development reserve and its profit is exempt from the payment of income tax; consequently, no income tax obligation is generated. However, in its normal transactions, the Tax Administration applies income tax withholdings that are subsequently applied as a credit to the value-added tax liability.

ICE’s subsidiaries are subject to the payment of income tax.

Income tax is as follows:

	For the year ended December 31,	
	2022	2021
Current tax	¢ (3,165)	(4,965)
Deferred tax	7,554	5,332
	¢ <u>4,389</u>	<u>367</u>

In conformity with the *Income Tax Law*, the subsidiaries file their income tax returns for the 12 months ending December 31 of each year.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Subsidiaries are subject to the payment of income tax on profit from their activities, at a rate of 30%.
The current tax expense is determined according to the tax laws in effect in Costa Rica.

The income tax returns filed by the subsidiaries for the years ended December 31, 2022, 2021, 2020 and 2019 are open to review by the Tax Authorities.

The difference between income tax expense and the expense that would result from applying the corresponding rate (30%) to pre-tax income (expected tax) is reconciled as follows:

	For the year ended December 31,			
	2022	2021		
Net profit (loss), before tax	¢ 186,630	(93,400)		
Less:				
ICE's non-taxable profit (loss)	171,053	(76,632)		
Profit (loss) before tax, adjusted and attributable to subsidiaries	15,577	(16,768)		
Tax profit (loss) of subsidiary CNFL	12,627	(17,421)		
Profit before tax	2,950	653		
Expected income tax expense	885	196	30%	30%
Plus (less) tax effect on:				
- Non-taxable income	(7,447)	-		
- Difference between fiscal and financial periods	7,716	5,226		
- Non-deductible expenses	8,178	-		
- Other	(4,943)	(5,055)		
Income tax	¢ 4,389	367		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*Deferred tax*

Deferred tax is as follows:

	December 31, 2022	Recognized in profit or loss for the year	December 31, 2021
<i>Deferred tax asset:</i>			
Employee benefits	¢ 2,031	1,875	170
Inventories	309	139	170
Accounts receivable	649	406	243
Provisions	19	(3)	22
Lease liabilities	57	(15)	72
Accounts payable	(60)	(60)	-
	<u>3,005</u>	<u>2,342</u>	<u>676</u>
<i>Deferred tax liability:</i>			
Property, plant and equipment, net	(84,497)	5,212	(89,709)
	¢ <u>(81,492)</u>	<u>7,554</u>	<u>(89,033)</u>
	December 31, 2021	Recognized in profit or loss for the year	January 1, 2021
<i>Deferred tax asset:</i>			
Employee benefits	¢ 170	(7)	177
Inventories	169	24	145
Accounts receivable	243	74	169
Provisions	22	19	3
Lease liabilities	72	51	21
Accounts payable	-	(61)	61
	<u>676</u>	<u>100</u>	<u>576</u>
<i>Deferred tax liability:</i>			
Property, plant and equipment, net	(89,709)	5,232	(94,941)
	¢ <u>(89,033)</u>	<u>5,332</u>	<u>(94,365)</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*Unrecognized deferred tax assets*

As of December 31, 2021, the subsidiary CNFL did not recognize in its statement of financial position a deferred tax asset in the amount of ¢14,105 related to the allowance for doubtful accounts, allowance for valuation of inventories, provision for statutory Christmas bonus, vacations and severance obligations, and tax losses incurred. This was due to the results for the period and the forecasts for future periods, given that CNFL, in conformity with Law No. 7722 *Government Institutions Subject to Payment of Income Tax*, has the right to deduct from the taxable base the investment reserves or development funds. Therefore, as of that date, CNFL was not expected to generate sufficient future taxable income to be able to recognize a deferred tax asset. In 2022, the subsidiary CNFL generated taxable income and used the tax benefit to deduct part of the tax losses incurred in prior periods. Hence, it did not incur the payment of income tax. CNFL thus recognized the deferred tax asset related to its allowances, accruals and provisions, but not a deferred tax asset related to tax losses pending application to future periods in the amount of ¢4,402, because the entity does not expect to generate sufficient taxable income for the moment when the benefit extinguishes.

(c) Value-added tax

Grupo ICE also pays value added tax pursuant to the amendment to Law No. 6826, derived from Law No. 9635. This is a value-added tax on the sale of goods and rendering of services, with some exceptions. For the sale of energy for residential electricity consumption, the tax rate is 5% on amounts consumed in excess of 280 kW per month, as well as for commercial consumption and the rendering of telecommunications services, the tax rate is 13%.

Because it is a value-added tax, Grupo ICE pays this tax on the goods and services required to perform its economic activity. Pursuant to Article 16 and the following articles of Law No. 9635, sales tax paid on goods and inputs that are used in the production of electricity and telecom services can be applied as a credit to the value added tax liability for the period.

(d) Special quasi-fiscal tax paid by telecommunications operators and suppliers to FONATEL (General Telecommunications Law (Law No. 8642))

Article 39 of the *General Telecommunications Law* (Law No. 8642) creates a quasi-fiscal tax to finance FONATEL to ensure compliance with the principles of universal access, universal service and cooperation. Such quasi-fiscal tax is to be levied on gross income directly earned by operators of public telecommunications networks and suppliers of public telecommunications services; the taxable event is generated by performing the aforementioned activities and receiving the individual income from the State-authorized activity.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

This tax is defined in a tax return issued for periods of one calendar year. The tax return must be filed by March 15 of each year and the tax is paid in four equal installments on the 15th of March, June, September and December of each year following the corresponding fiscal year-end.

The tax rate is set annually by SUTEL no later than November 30 of the corresponding fiscal year. The tax rate ranges from 1.5% to 3%; the final rate shall be based on SUTEL's estimates of the costs of the projects to be executed in the following budget year and the target estimated income. In the event that the tax rate is not defined by SUTEL in a timely manner, the applicable rate for the immediately preceding tax period will be used.

(e) Quasi-fiscal tax on telephony services

Through the *Amendment to the Creation of the Quasi-fiscal Contribution to the Telecommunications Service destined to Finance the Costa Rican Red Cross Association* (Law No. 9896) published on September 30, 2020, a quasi-fiscal contribution to the Costa Rican Red Cross Association was created.

This contribution equals to 1% of the amounts paid by the end user (owners of a telecommunications service understood as mobile telephone services or any method of payment, traditional telephony, VoIP telephony, fixed and mobile internet and dedicated lines). The amounts collected must be paid on the 15th of each month, at the latest. This law amends Law No. 8690, which originated the Creation of the Quasi-fiscal Contribution to the Telecommunications Service to Finance the Costa Rican Red Cross Association.

(f) Tax in favor of the Firefighter Department of Costa Rica

The *Law of the Meritorious Firefighter Department of Costa Rica* (Law No. 8228), dated March 19, 2002 was amended through the *Law for the Economic Strengthening of the Meritorious Firefighter Department of Costa Rica* (Law No. 8992), published in the Official Gazette on September 22, 2011. The latter law amends Articles 28 and 33 and Article 40 - "Financing of the Firefighter Department" and creates, as an additional source of revenue for the operations and sustained growth of the Costa Rican Firefighter Department, a tax equivalent to 1.75% of the monthly billing for electricity consumption of subscribers.

(g) Customs taxes

According to customs legislation, the customs tax obligation consists of customs duties and internal charges and must be paid in full in order for goods to clear customs. The tariff on imports (known by the Spanish acronym "DAI") constitutes an ad valorem tax, which is set based on the established customs classification and coding system. Internal charges include the excise tax (rate based on the merchandise), the tax corresponding to the *Tax Law* (Law No. 6946) (1%), value added tax (13%) and other specific taxes for the Agrarian Development Institute (IDA), the Institute for Municipal Development and Technical Assistance (IFAM) and the Golfito Duty Free Zone, among others. ICE must pay customs duties on imports based on the type of merchandise and specific exemptions in order for them to clear customs.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(h) Other obligations

ICE and its subsidiaries RACSA and CNFL are also an income tax withholding agent in accordance with the *Income Tax Law*. Among its responsibilities as a withholding agent, ICE and its subsidiaries RACSA and CNFL must withhold and pay the corresponding tax to the Tax Authorities on behalf of recipients of the following types of income:

- Wages, non-salary payments, compensation for personal services and per diem allowances.
- 2% tax withholding when income tax is paid to (or credited to) individuals or corporations domiciled in the country, as established in subsection g) of Article 23 of the *Income Tax Law*.
- Remittances or credits paid to non-domiciled individuals or entities for services such as transportation, communications, technical financial advisory services, personal services and other services, based on the rates and categories defined in Articles 55 and 59 of the *Income Tax Law*.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 30. Financial risk management**a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		December 31, 2022									
		Carrying amount					Fair value				
	Note	Fair value - hedging instruments	FVOCI – Debt and equity instruments	Financial assets at amortized cost	Financial assets at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>											
Equity investments	10	¢	-	4,603	-	-	-	-	-	4,603	4,603
Notes and other receivables, net	11	-	-	242,260	-	-	242,260	-	-	-	-
Investments in financial instruments	12, 14	-	351,090	177,724	22,379	-	551,193	-	373,469	-	373,469
Trade receivables, net	15	-	-	175,028	-	-	175,028	-	-	-	-
Cash and cash equivalents	16	-	-	338,778	-	-	338,778	-	-	-	-
		¢	-	355,693	933,790	22,379	1,311,862	-	373,469	4,603	378,072
<i>Financial liabilities</i>											
Financial debt	17(a) 17(b)	¢	-	-	-	2,322,166	2,322,166	-	2,014,934	-	2,014,934
Accounts payable	20	-	-	-	-	237,829	237,829	-	-	-	-
Derivative financial instruments			3,313	-	-	-	3,313	-	3,313	-	3,313
		¢	3,313	-	-	2,559,995	2,563,308	-	2,018,247	-	2,018,247

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Notes to the Consolidated Financial Statements
(In millions of colones)

		December 31, 2021									
		Carrying amount					Fair value				
		<u>Fair value -</u>	<u>FVOCI – Debt</u>	<u>Financial</u>		<u>Other</u>					
	<u>Note</u>	<u>hedging</u>	<u>and equity</u>	<u>assets at</u>	<u>Financial assets</u>	<u>financial</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
		<u>instruments</u>	<u>instruments</u>	<u>amortized</u>	<u>at FVTPL</u>	<u>liabilities</u>					
				<u>cost</u>							
<i>Financial assets</i>											
Equity investments	10	¢	-	6,673	-	-	6,673	-	-	6,673	6,673
Notes and other receivables, net	11		-	-	231,532	-	231,532	-	-	-	-
Investments in financial instruments	12, 14		-	342,330	56,281	48,481	447,092	-	390,811	-	390,811
Trade receivables, net	15		-	-	173,218	-	173,218	-	-	-	-
Cash and cash equivalents	16		-	-	429,632	-	429,632	-	-	-	-
		¢	-	349,003	890,663	48,481	1,288,147	-	390,811	6,673	397,484
<i>Financial liabilities</i>											
Financial debt	17(a) 17(b)	¢	-	-	-	2,587,522	2,587,522	-	2,197,998	-	2,197,998
Accounts payable	20		-	-	-	245,761	245,761	-	-	-	-
Derivative financial instruments			3,886	-	-	-	3,886	-	3,886	-	3,886
		¢	3,886	-	-	2,833,283	2,837,169	-	2,201,884	-	2,201,884

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Fair value of financial instruments

As of December 31, 2022, Grupo ICE has no transfers between levels in the fair value hierarchy.

A number of Grupo ICE's accounting policies and disclosures require the determination of fair values for financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes based on the methods described below.

i. Notes and other receivables, trade receivables, net and accounts payable

The carrying amounts of notes and other receivables, trade receivables and accounts payable were not included in the table above. Their carrying amounts approximate fair value due to their short-term nature.

ii. Equity investments

Fair values have been determined in accordance with generally accepted valuation models based on a discounted cash flow analysis, using the most significant indicators such as the discount rate that reflects the credit risk of the counterparties. The estimated fair value would increase (decrease) if the discount rate is lower (greater) or if the cash flows are greater (lower) than projected.

iii. Investments in financial instruments

The fair value is estimated using a market comparison or discounted cash flows, considering 1) current or recent quoted prices for identical instruments in markets that are not active and 2) the net present value calculated using discount rates derived from quoted yields of instruments with a maturity and similar risk ratings.

iv. Derivative financial instruments – cash flow hedges

The fair value is calculated as the present value of the net estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, futures prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflect the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rates swaps, as well as collateral granted or received.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)v. Debt

The fair value determined for disclosure purposes is calculated as the present value of future cash flows and of principal and interest, discounted at the market interest rate at the reporting date of instruments with maturities and identical risks.

To determine the fair value of the long-term debt as of December 31, 2022, a discount rate between 5.01% and 11.73% was used in colones and between 0.70% and 10.14% in US dollars (2021: between 1.29% and 7.91% was used in colones and between 0.70% and 7.85% in US dollars), which is the rate offered to Grupo ICE

b) Financial risk management

Grupo ICE has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

i) Risk management framework

The purpose of the Corporate Policy for Financial Risk and Financial Hedging Management is to provide Grupo ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization and to increase and diversify income included in the business strategy, through an effective management of financial risks using market opportunities, based on available financial instruments, in accordance with the Risk Management and Financial Risk Hedging Strategy.

Risk management policies and systems are revised annually to ensure that they reflect changes in market conditions and in Grupo ICE's activities. This review is performed by the Financial Management through the Financial Risk process.

The use of financial derivatives is in accordance with the Corporate Policy for Financial Risk and Financial Hedging Management, which provide guidelines on foreign currency, interest rate and credit risks, the use of derivative and non-derivative financial instruments and the investment of excess liquidity.

Each year, the Financial Management, together with all managements of Grupo ICE, develops a financial risk map for Grupo ICE and follows-up on controls and action plans on an annual basis.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The three risks may have an impact on the management of Grupo ICE; therefore, it seeks to minimize them. For credit risk, the Investment Committee monitors credit risk through an analysis of the fundamental factors of issuers and monitors capital adequacy, asset quality, management, earnings and liquidity (CAMELS) ratings in order to know about the financial health of the counterparties with which financial investments are held. For liquidity risk, cash flows are controlled by segment, which considers outflows or payments of each of the segments. For market risk, there is a possibility to perform financial hedges or contract financial derivatives.

The Corporate Policy for Financial Risk and Financial Hedging Management, the Manual of Policies and Procedures for Risk Management and the associated systems are part of the risk management framework, which ensure an effective management within Grupo ICE. Moreover, changes in market conditions and in ICE's financial activities are controlled and monitored by analyzing the risk environment. The Internal Audit department oversees compliance with ICE's risk management policies and procedures and it assesses the adequacy of the risk management framework in relation to the risks. Furthermore, the Audit Committee's work plan includes overseeing risk management.

The Investment Committee is responsible for monitoring and controlling the management of the temporary investments of Grupo ICE's Electricity and Telecom Segments. This is the body to which the Financial Management delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) on investment decisions, including investment limits by instrument, currency and sector and on risk levels for the portfolio composition.

The Investment Committee approves the Investment Strategy document (reviewed annually) and the Management Limits document for Grupo ICE's investment portfolios (reviewed as determined by the committee). In addition, there is a Financial Investment Policy Manual and a procedure for making international investments, which seeks greater and better diversification of temporary investments. Additionally, the risk level is monitored through Value at Risk (VaR) indicators, duration, concentration indicators, credit risk indicators, liquidity, etc. Stress testing and back testing are also performed to measure the efficacy of the model used.

The risk management policies and the support systems are reviewed regularly to reflect changes in market conditions and Grupo ICE's activities. The Audit Committee oversees how the Finance Management monitors compliance with Grupo ICE's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by Grupo ICE. The Audit Committee is assisted in its oversight role by Internal Audit.

ii) Credit risk

Credit risk is the risk of financial loss to Grupo ICE if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Grupo ICE's notes and receivables and investment instruments.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

To mitigate this risk, the risk ratings assigned to investments by rating agencies are monitored and tracked. Investment limits have also been established for Grupo ICE's portfolio by market (local and international), sector (public, other public sector and private), instrument, issuer and issue. Grupo ICE does not receive collateral guarantees for this risk.

Exposure to credit risk

The balance of each financial asset represents the maximum exposure to credit risk as follows:

Carrying amount of financial assets	Note	As of December 31,	
		2022	2021
Notes and other accounts receivable, net	11	¢ 242,260	231,532
Investments in financial instruments	12 and 14	551,193	447,092
Trade receivables, net	15	175,028	173,218
Cash and cash equivalents	16	338,778	429,632
		¢ 1,307,259	1,281,474

(i) Accounts receivable

Grupo ICE recognizes loss allowance over the remaining life of the operation for notes and trade receivables and contractual assets. ECL in these financial assets are estimated using a provision matrix based on the historical experience of Grupo ICE's credit losses, adjusted by factors specific to borrowers, general economic conditions and an evaluation of both the current condition and the forecast of the conditions at the reporting date, including the time value of money as appropriate.

For all other financial instruments, Grupo ICE recognizes lifetime ECL.

Lifetime ECL are the ECL that result from all possible default events over the life of a financial instrument.

Accounts due from customers are characterized as being current assets (less than one year) and do not include a significant financing component; therefore, IFRS 9 allows to define an impairment allowance model with an expected loss simplified approach.

Accounts receivable are controlled directly by the Electricity and Telecom segments. The procedure performed by each segment for recovering receivables is summarized below:

- Collection management during the different stages using a variety of means, i.e. text messaging, calls and emails.
- Both mass collection and specific collection management, centralized in the Billing and Income Management Division, through three methods depending on the collection stage, with different strategies for each stage.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

- Immediate suspension of electricity and telephone services after the bill's due date. The average collection periods for the Telecom and Electricity segments are 29 days and 31 days, respectively. Collection periods are determined by each segment (Collections Management Policy).
- Online collection process through contracts with external collection agents and banks, or internal collection through Grupo ICE's cashier windows.
- In the event that the outstanding balance is not recovered, the administrative collection process begins after 35 days for the Electricity Segment and after 90 days for the Telecom Segment. Administrative collection involves locating the customer and informing about the delinquency as well as notifying the credit protection agency so that the situation is included in the customer's credit history. For such purposes, Grupo ICE uses companies dedicated to collections or coordinating payment arrangements with customers to mitigate arrears.
- Residual past due accounts (representing less than 1%) are studied to determine the need to include them in legal collection, a process performed through the subsidiary Gestión Cobro Grupo ICE, S.A.

The accounting policy for the allowance for expected credit losses is detailed below.

Trade receivables

Grupo ICE determines a collective impairment model for trade receivables segmented by service (Electricity and Telecom), which are in turn segmented by customer (General, Government, Subsidiaries, Private Banks, Foreign Customers). All operations classified under a segment have certain similar risk characteristics such as commercial conditions, term and business types.

For the allowance for collective impairment, a receivables matrix comprised of expected loss rates was defined for an arrears group in each segment. Grupo ICE uses historical trends of the portfolio's arrears and default to determine these loss rates.

Loss rates are obtained for each segment and in turn for each arrears group, for which each operation is assigned a loss rate depending on the arrears days at the time impairment is estimated. Grupo ICE defines the loss rates by calculating the portfolio's loss proportion in one year based on arrears level. For accounts in legal or administrative collection, a single loss rate is defined, applicable to all operations, as the proportion of the outstanding balance that was not recovered within one year.

For the Electricity and Telecom Segments' accounts with the government, a 0.1% loss rate was determined based on the nature of those accounts, which expectation of payment is high. Accounts with arrears more than 360 days were identified as well but, since they are due from State-owned entities, it was determined that receivables will be collected fully.

For the Electricity Segment's accounts with private banks, a 0.01% loss rate was determined based on the nature of those accounts, since the entities' ability to pay is strong and, historically, they have not been in arrears as a result of their ability to pay.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

For the Electricity Segment's accounts with distribution companies, a 0.01% loss rate was determined based on the nature of those accounts and, historically, since the companies have been in arrears of 22 days in average.

The portfolio is comprised of products with terms of less than 12 months; therefore, expected loss parameters are calibrated each year and the recent creation of an expected loss model does not incorporate the application of macroeconomic scenarios. However, annual monitoring of the model will help to identify in future valuations the existence of a new factor that might affect the risk level and incorporate it to the calculation of loss rates.

As of December 31, 2022, the maximum exposure to credit risk for trade receivables (see Note 15) by geographic region is as follows:

Geographic region	As of December 31,	
	2022	2021
Local	¢ 235,336	230,953
Foreign	297	603
	235,633	231,556
Allowance for impairment losses	(60,605)	(58,338)
	¢ 175,028	173,218

Grupo ICE's exposure to credit risk is mainly affected by the individual characteristics of each customer. As of December 31, 2022, there is no significant concentration of credit risk.

The aging of the balance of trade receivables (see Note 15) and the allowance for expected losses is as follows:

December 31, 2022	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	5.33%	¢ 146,694	7,814	No
1 to 30 days	9.94%	12,691	1,262	No
31 to 60 days	8.59%	6,028	518	Yes
61 to 90 days	11.78%	2,811	331	Yes
More than 90 days	75.18%	67,409	50,680	Yes
		¢ 235,633	60,605	

December 31, 2021	Weighted-average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	7.42%	¢ 134,230	9,959	No
1 to 30 days	4.69%	12,334	579	No
31 to 60 days	5.30%	5,570	295	Yes
61 to 90 days	18.32%	3,396	622	Yes
More than 90 days	61.67%	76,026	46,883	Yes
		¢ 231,556	58,338	

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

An analysis of the credit quality of trade receivables is as follows:

	As of December 31,	
	2022	2021
Current	¢ 215,571	211,922
In legal and administrative collection	20,062	19,634
	235,633	231,556
Allowance for impairment losses	(60,605)	(58,338)
	¢ <u>175,028</u>	<u>173,218</u>

Movement in the allowance for impairment of trade receivables is as follows:

	As of December 31,	
	2022	2021
Opening balance	¢ 58,338	47,653
Amounts written off	(6,822)	18
Recognized	9,089	10,667
Closing balance	¢ <u>60,605</u>	<u>58,338</u>

Non-trade receivables

Grupo ICE determines a collective impairment model for the other receivables that are classified as “Non-identified” and an individual model for accounts due from customers whose expectations of payment are known.

For non-identified, non-trade receivables, a loss rate is determined for accounts aged less than two years, obtained as the proportion of balance more than two years of the total balance. A 100% loss rate is determined for accounts aged more than two years.

The aging of the balance of non-trade receivables (see Note 11) and the allowance for expected losses are as follows:

December 31, 2022	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	3.72%	¢ 9,696	361	No
1 to 30 days	0.24%	2,092	5	No
31 to 60 days	0.04%	5,312	2	No
61 to 90 days	0.11%	888	1	Yes
More than 90 days	21.43%	5,291	1,134	Yes
		¢ <u>23,279</u>	<u>1,503</u>	

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

December 31, 2021	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	2.71%	¢ 13,863	375	No
1 to 30 days	1.16%	175	2	No
31 to 60 days	0.00%	31	-	No
61 to 90 days	17.39%	2,771	482	Yes
More than 90 days	0.35%	573	2	Yes
		¢ 17,413	861	

Movement in the allowance for impairment of non-trade receivables is as follows:

	As of December 31,	
	2022	2021
Opening balance	¢ 861	1,423
Amounts written off	(506)	(388)
Recognized	1,148	(174)
Closing balance	¢ 1,503	861

Notes receivable

Grupo ICE determines a collective impairment model for the notes receivable derived from payment arrangements by service (electricity and telecom). All operations classified under a segment have certain risk characteristics such as commercial conditions, term and business types.

For the allowance for collective impairment, a matrix of expected loss rates was defined for a delinquency group in each segment. Grupo ICE uses historical trends of the portfolio's delinquency and default to determine these loss rates.

Loss rates are obtained for each segment and in turn for each delinquency group (for electricity), for which each operation is assigned a loss rate depending on the delinquency days at the time impairment is estimated. Grupo ICE defines the loss rates by calculating the portfolio's loss proportion in one year based on delinquency level.

The portfolio is comprised of products with terms of less than 12 months; therefore, expected loss parameters are adjusted each year and the recent creation of an expected loss model does not incorporate the application of macroeconomic scenarios. However, annual monitoring of the model will help to identify in future valuations the existence of a new factor that might affect the risk level and incorporate it to the calculation of loss rates.

The aging of the balance of notes receivable (general borrowers and loans to employees; see Note 11) and its allowance for expected losses are as follows:

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

December 31, 2022	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.20%	¢ 168,073	335	No
1 to 30 days	9.42%	6,424	605	No
31 to 60 days	12.02%	965	116	No
61 to 90 days	35.71%	56	20	No
More than 90 days	49.58%	7,429	3,683	Yes
		¢ <u>182,947</u>	<u>4,759</u>	

December 31, 2021	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.19%	¢ 169,410	328	No
1 to 30 days	1.49%	7,542	112	No
31 to 60 days	6.49%	1,094	71	No
61 to 90 days	73.61%	71	53	No
More than 90 days	51.39%	8,070	4,147	Yes
		¢ <u>186,188</u>	<u>4,711</u>	

Movement in the allowance for impairment of notes receivable is as follows:

	As of December 31,	
	2022	2021
Opening balance	¢ 4,711	3,874
Amounts written off	19	331
Recognized	29	506
Closing balance	¢ <u>4,759</u>	<u>4,711</u>

(i) *Investments in financial instruments*

Grupo ICE determines a collective impairment model for investments in financial instruments segmented by the local rating which has been adjusted to the international rating of each instrument. It is important to point out that the credit risk of the instruments issued by the central government is assumed as instruments catalogued under a Low Credit Risk policy because:

- The instrument has a low risk of default;
- The adverse changes in the economy and business conditions in the long term may, but may not necessarily, reduce the borrower's ability to meet its contractual obligations.
- Historically no default events have occurred.

A government or bank financial instrument will be considered as a Low Credit Risk and will be assigned the best rating at country level; it will be classified in stage 1, establishing a 12-month ECL allowance.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

For private stock market investments, other than government investments under the collective model, the following criteria were defined to determine each stage within the model:

- Stage 1 – (i) Instruments with external rating as of the date of valuation within an investment grade rating (instruments with international rating B). A qualitative analysis is required to determine if significant changes within the investment grade rating occur in a downtrend in order to identify a significant increase. (ii) Instrument with external rating without an impairment in the rating from level 1 rating downwards from the commencement date.
- Stage 2 – (i) Instrument with movement of more than 1 level in the rating downwards from the commencement date of the instrument, when such criteria is supported by more than one rating agency. (ii) Instrument with arrears more than 30 days in the payment of principal or interest.
- Stage 3 – (i) Instrument whose credit rating as of the evaluation date is lower than a DDD rating and its initial credit rating was higher than this one and (ii) Instrument with arrears more than 90 days in the payment of principal and interest.

To establish qualitative elements of increase in risk, different elements are defined, which under the judgment of an expert could affect the operation's significant increase in risk.

The qualitative assessment is applicable in the event that an instrument has an external rating with investment grade rating, but that rating has decreased significantly with respect to the rating granted at the initial date of the financial asset.

For the current model, a recovery rate could not be identified because no default factor was observed; therefore, to assign a Loss Given Default (LGD) the percentage recommended by Basel, i.e. 45%, was used.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

For the allowance for collective impairment, a probability of default was defined, obtained through the marginal default matrix issued by Fitch in its global annual default study and transition matrices for corporations. Fitch's matrix is considered to determine a weighted probability that is unbiased, as long as it considers diverse scenarios obtained by such rating agency, by comprising diverse and numerous institutions, with which past event information, current conditions and forecasts in future economic conditions are included, since they are part of the analysis of the rating agency, to grant a credit rating.

Credit ratings for investments in financial instruments (see Notes 12 and 14) are as follows:

Credit rating	As of December 31,									
	2022					2021				
	FVTPL	FVOCI	At amortized cost			FVTPL	FVOCI	At amortized cost		
<i>In millions of colones</i>	12-month ECL	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	12-month ECL	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired		
Between BB- and BB+	-	-	-	-	-	-	-	-	-	-
Between B- and B+	22,379	351,090	177,724	-	-	48,481	342,330	56,281	-	-
Between C and CCC+	-	-	-	-	-	-	-	-	-	-
D	-	-	-	-	-	-	-	-	-	-
Total	22,379	351,090	177,724	-	-	48,481	342,330	56,281	-	-

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Movement in the allowance for impairment of investments in financial instruments at amortized cost is as follows:

<i>In millions of colones</i>	As of December 31, 2022			
	12-month ECL	Lifetime ECL - not credit- impaired	Lifetime ECL - credit impaired	Total
Opening balance	¢ 89	-	-	89
New net measurement of correlation of loss amount	-	-	-	-
Transfer to lifetime ECL - not credit impaired	-	-	-	-
Transfer to lifetime ECL - credit- impaired	-	-	-	-
Financial assets paid	-	-	-	-
Financial assets acquired	715	-	-	715
Closing balance	¢ 804	-	-	804

<i>In millions of colones</i>	As of December 31, 2021			
	12-month ECL	Lifetime ECL - not credit- impaired	Lifetime ECL - credit impaired	Total
Opening balance	¢ 125	15	-	140
New net measurement of correlation of loss amount	-	-	-	-
Transfer to lifetime ECL - not credit impaired	-	-	-	-
Transfer to lifetime ECL - credit- impaired	-	-	-	-
Financial assets paid	(36)	(15)	-	(51)
Financial assets acquired	-	-	-	-
Opening balance	¢ 89	-	-	89

(Continued)

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Notes to the Consolidated Financial Statements
(In millions of colones)

Movement in the allowance for impairment of investments in financial instruments at FVOCI during the year is as follows:

<i>In millions of colones</i>	As of December 31, 2022			
	12-month ECL	Lifetime ECL - not credit- impaired	Lifetime ECL - credit impaired	Total
Opening balance	¢ 2,315	1,272	-	3,587
New net measurement of correlation of loss amount	9	-	-	9
Transfer to lifetime ECL - not credit impaired	(75)	2,770	-	2,695
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	(79)	(51)	-	(130)
Financial assets acquired	469	-	-	469
Closing balance	¢ 2,639	3,991	-	6,630

<i>In millions of colones</i>	As of December 31, 2021			
	12-month ECL	Lifetime ECL - not credit- impaired	Lifetime ECL - credit impaired	Total
Opening balance	¢ 2,036	2,470	-	4,506
New net measurement of correlation of loss amount	3	-	-	3
Transfer to lifetime ECL - not credit impaired	(41)	(1,078)	-	(1,119)
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	(338)	(120)	-	(458)
Financial assets acquired	655	-	-	655
Closing balance	¢ 2,315	1,272	-	3,587

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Notes to the Consolidated Financial Statements
(In millions of colones)Cash and cash equivalents

As of December 31, 2022, Grupo ICE holds cash and cash equivalents in the amount of ¢338,778 (2021: ¢429,632). Cash and cash equivalents are held with banks and financial entities that are supported by guarantees of the local government; therefore, they were rated within the B range according to Fitch.

The impairment of cash and cash equivalents has not been measured on the basis of the 12-month ECL because, due to their nature, they are considered highly-liquid and very short-term instruments. Consequently, Grupo ICE considers that its cash and cash equivalents have a low credit risk.

iii) Liquidity risk:

Liquidity risk is the risk that Grupo ICE will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Grupo ICE's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Grupo ICE's reputation.

Actions have been taken in the Electricity and Telecom Segments to obtain greater assurance with respect to projected payment of liabilities and more precise projections of income in order to control treasury cash flows. Such measures in the projection of liabilities and expenses, as well as in the income of both segments, permit better monitoring and tracking cash flows and liquidity risk exposure, as well as an improved management of treasury operations related to the buying and selling of currency and access to short- and medium-term lines of credit, among others.

The Financial Management prepares the short-, medium- and long-term cash flow projections that are used to estimate the purchase of currency and short-term financing and anticipate liquidity needs.

Treasury management includes preparation of the projected cash flows based on the company's budget information and a weekly schedule that details daily cash inflows and outflows to visualize cash flow behavior and determine daily liquidity needs. As part of this process, to obtain more accurate information on payments, especially those having a strong impact on cash flows, in compliance with Treasury's policies, segments and different areas of Grupo ICE must send the programming of payments for a 12-month period.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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Additionally, there is coordination with business units regarding income behavior and with areas responsible for finance management to optimize treasury management and achieve a better matching between income and timely attention to payment obligations.

Grupo ICE's liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Furthermore, treasury policies define payments to providers to be made once a week, with payment terms of a maximum of 30 days, except for commitments with fixed, unavoidable settlement dates, from the time the event originating the payment takes place and the invoice is presented. Also, policies establish that payments must be made by bank transfer.

Lines of credit are part of the instruments used by management to finance needs for working capital, issue of bid and performance bonds and opening and refinancing of letters of credit. Over the years, lines of credit have become one of the most often used short-term financing options.

As of December 31, 2022, uncommitted, short-term lines of credit in US dollars are available for letters of credit, guarantees and working capital, with variable interest rates in the amount of US\$160 million.

Lines of credit are approved as follows: amounts greater than US\$20 million are approved by the board of directors and amounts equal to or of less than US\$20 million are approved by the Corporate Procurement Board. Shortfalls are determined based on the schedule of cash inflows and outflows along with the required terms so as to obtain quotes and borrow funds from the lowest cost bank. Line of credit transactions are documented with a promissory note. The purpose of using lines of credit is covering mismatches between the date of receipt of income and the date of payment of obligations and other liabilities, typical of cash flow management.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities as of the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements (if any).

	As of December 31, 2022					
	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<i>Non-current liabilities:</i>						
Bonds payable	¢ 799,241	1,322,718	-	278,299	270,481	773,938
Loans payable	1,356,137	2,214,604	-	395,437	454,789	1,364,378
Lease liabilities	270,342	440,766	-	111,903	168,273	160,590
Accounts payable	153,626	153,626	-	-	-	153,626
Total non-current liabilities	2,579,346	4,131,714	-	785,639	893,543	2,452,532
<i>Current liabilities:</i>						
Bonds payable	74,457	134,431	134,431	-	-	-
Loans payable	92,331	190,485	190,485	-	-	-
Lease liabilities	62,832	99,332	99,332	-	-	-
Accounts payable	84,203	84,203	84,203	-	-	-
Total current liabilities	313,823	508,451	508,451	-	-	-
	¢ 2,893,169	4,640,165	508,451	785,639	893,543	2,452,532

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The following are the contractual maturities of financial liabilities for December 31, 2021, including interest:

	As of December 31, 2021					
	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<i>Non-current liabilities:</i>						
Bonds payable	¢ 923,371	1,580,774	-	328,125	475,599	777,050
Loans payable	1,460,736	1,964,323	-	437,652	1,162,265	364,406
Lease liabilities	353,118	658,663	-	155,203	291,482	211,978
Accounts payable	153,339	153,339	-	-	-	153,339
Total non-current liabilities	<u>2,890,564</u>	<u>4,357,099</u>	<u>-</u>	<u>920,980</u>	<u>1,929,346</u>	<u>1,506,773</u>
<i>Current liabilities:</i>						
Bonds payable	88,859	148,820	148,820	-	-	-
Loans payable	114,556	185,937	185,937	-	-	-
Lease liabilities	44,131	92,651	92,651	-	-	-
Accounts payable	92,422	92,423	92,423	-	-	-
Total current liabilities	<u>339,968</u>	<u>519,831</u>	<u>519,831</u>	<u>-</u>	<u>-</u>	<u>-</u>
	¢ <u>3,230,532</u>	<u>4,876,930</u>	<u>519,831</u>	<u>920,980</u>	<u>1,929,346</u>	<u>1,506,773</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity.

As indicated in Note 17, Grupo ICE holds secured bank loans that contain debt restrictions. A future non-compliance with those restrictions may require Grupo ICE to settle the loan before the date indicated in the table above; therefore, loan conditions are monitored periodically by the Treasury Department and are regularly reported to Finance Management to ensure compliance.

iv) Market risk:

Market risk is the risk that changes in market prices, e.g. foreign exchange rates and interest rates, will mainly affect Grupo ICE's income or the value of the financial instruments it holds. The objective of risk management is to manage and control exposures to keep this risk within reasonable parameters while simultaneously optimizing return.

Grupo ICE uses derivative financial instruments to manage existing market risks. All hedging operations are valued according to the market value provided by the issuer of the instrument. Hedge accounting is used for qualifying instruments that are formally designated in order to mitigate volatility in the market prices of the financial instruments that have an effect on profit or loss.

Derivative financial instruments are traded with first tier banks with which confidentiality agreements and other documentation to trade derivatives have been subscribed. Based on the risk strategy, Grupo ICE has elected to manage derivatives specifically to hedge risks derived from existing liabilities.

The following risks are hedged by acquired derivative financial operations: variations in local and foreign interest rates and foreign exchange rates, which affect cash flows, the value of instruments, etc. The entity currently holds four derivative financial instruments: one to hedge interest rate risk (Interest Rate Swap); two to hedge against the yen/US dollar fluctuations (Cross Currency Swap); and one to hedge against the US dollar/colon fluctuations (Currency Swap).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Management of the reform to the reference rate and related risks*Overview*

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some Interbank Offered Rates (IBOR) with alternative nearly risk-free rates (referred to as 'IBOR reform'). ICE has exposures to IBOR, specifically to the London Interbank Offered Rate (LIBOR), on its financial instruments that will be replaced or reformed as part of these initiatives market-wide. There is uncertainty about the transition methods in the market in general. Grupo ICE anticipates that the IBOR reform will have an effect on its risk management and derivatives accounting.

The Finance Management monitors and manages Grupo ICE's transition process to alternative rates. ICE assesses the extent to which agreements make reference to LIBOR cash flows, whether those agreements would require to be modified due to the LIBOR reform and how to manage the communication with the counterparties about the LIBOR reform.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some inter-bank office rates (IBORs) with alternative nearly risk-free rates. Due to the nature of its business, Grupo ICE's statement of financial position includes short-term fixed-rate financial liabilities. However, Grupo ICE has exposures to IBORs (only USD LIBOR) on its financial instruments that will be reformed or replaced.

The Alternative Reference Rates Committee (ARRC) was established by the U.S. Federal Reserve to ensure a successful transition of the USD LIBOR rate to an alternative benchmark rate. The ARRC includes entities of the private sector – who participate in the markets affected by USD LIBOR – and other government entities, including regulators of the US financial sector. In May 2021, the ARRC established that USD LIBOR will cease to be published on June 30, 2023, and that will be the deadline to complete the modification of contracts that must include the transition language to the new benchmark rate (originally set for the end of 2021).

The main risks to which Grupo ICE is exposed as a result of IBOR reform are operational. These include updating contractual terms and reviewing operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

According to initial exercises on the use of the SOFR rate on the cash flows of loans subject to a change in rate, not only is the financial equilibrium maintained, but the replacement of the rate – due to the disappearance of LIBOR from the market – reflects that the new benchmark rate is not abusive or detrimental to Grupo ICE's interests; rather, it will benefit from an improvement in cash flows. Furthermore, the use of this benchmark rate shows an improvement in the cost of the loans under consideration.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*IBOR reform*

In September 2019, the International Accounting Standards Board (IASB) completed Phase 1 of the IBOR reform and issued the document *Interest Rate Benchmark Reform*, which includes amendments to IFRS 9 and IFRS 7, effective for periods beginning on January 1, 2020. In August 2020, IASB published Phase 2 of the IBOR Reform, which is effective as of January 1, 2021. Phase 2 provided clarifications, exemptions and included new requirements and temporary exceptions for IFRS 9, IFRS 7 and IFRS 16.

Phases 1 and 2 of the IBOR reform are applicable to the extent that Grupo ICE identifies uncertainties in the measurement of its financial instruments when transitioning to the new benchmark rate. As of December 31, 2022, they have not been adopted because such uncertainties have not been identified.

Grupo ICE is currently reviewing the contracts and assessing the potential impact of the change from LIBOR to SOFR on the remeasurement of its financial liabilities. As of December 31, 2022, some loans in Grupo ICE's liability portfolio have already migrated to the SOFR rate for the calculation of interest.

Derivatives

Grupo ICE holds interest rate swaps for risk management purposes and that are designated as fair value hedges through profit or loss. Interest rate swaps have floating components that are indexed at LIBOR. Grupo ICE's derivative instruments are ruled by agreements based on the framework agreements of the International Swaps Derivatives Association (ISDA).

ISDA is currently revising its standardized agreements in light of the LIBOR reform and plans to amend certain floating rate options in the 2006 ISDA Definitions to include fallback that would apply to certain permanently discontinued key rates.

ISDA is expected to publish a LIBOR Fallback Supplement to amend the 2006 ISDA Definitions and a LIBOR Fallback Protocol to facilitate multilateral amendments to include the amended floating rate operations in the derivatives transactions entered into prior to the date of the supplement. ICE currently plans to adhere to the protocol and monitor whether its counterparties are also adhered. If this plan changes or there are counterparties that will not adhere to the protocol, the new fallbacks can be incorporated via bilateral negotiation between Grupo ICE and the counterparties.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Currency risk

Grupo ICE is exposed to currency risk to the extent that its income is denominated in a functional currency while its purchases and loans are denominated in other currencies. The largest exposure held by Grupo ICE is in US dollars.

The financial hedging policy seeks to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the currency risks. These instruments must be designated as hedging instruments; instruments for speculation are not accepted. Consequently, these instruments will be booked applying "hedge accounting" provided that accounting standards requirements are met.

Some of the instruments that may be used are the following:

- a) Forward
- b) Plain vanilla
- c) Interest rate swap
- d) Currency swap
- e) Non-deliverable forward
- f) Cross-currency swap

Other instruments with similar structures can be derived from the families of derivative financial instruments mentioned above. Management shall decide whether to use such instruments to comply with the Corporate Policy for Financial Risk and Financial Hedging Management and with its risk management strategy. The use of futures and options is not contemplated. The risk management strategy shall mitigate exposure to variability in cash flows due to fluctuations in foreign exchange rates arising from debt positions in currencies other than the functional currency, attempting to offset those potential risks according to market conditions.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Exposure to currency risk

As of December 31, 2022 and 2021, Grupo ICE's exposure to currency risk is as follows:

(In millions)	US Dollars		Yen	
	December 31,		December 31,	
	2022	2021	2022	2021
<u>Assets:</u>				
Investments in financial instruments	¢ 201	166	-	-
Notes and other accounts receivable, net	22	13	-	-
Cash and cash equivalents	240	150	-	-
Trade receivables, net	1	17	-	-
	<u>464</u>	<u>346</u>	<u>-</u>	<u>-</u>
<u>Liabilities:</u>				
Bonds payable	1,086	1,224	-	-
Loans payable	620	805	20,841	21,880
Lease liabilities	557	618	-	-
Accounts payable	66	71	579	578
Accrued interest payable	19	17	82	86
Other liabilities	-	10	-	-
Prepaid income	-	7	-	-
Security deposits	-	2	-	-
Litigation provision	6	-	-	-
	<u>2,354</u>	<u>2,754</u>	<u>21,502</u>	<u>22,544</u>
Excess liabilities over assets	¢ <u>1,890</u>	<u>2,408</u>	<u>21,502</u>	<u>22,544</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The main exchange rates used are as follows:

	Exchange rate - US dollar	
	As of December 31,	
	2022	2021
Colones	597.64	642.66
Japanese yen	131.85	115.10

In the case of currency operations, Grupo ICE adheres to the provisions of the *Internal Regulations of the Central Bank of Costa Rica* (Law No. 7558), dated November 27, 1995. Article 89 of that law states that “Non-banking public sector institutions shall execute their currency buy and sell transactions through the Central Bank of Costa Rica (BCCR) or State-owned commercial banks.” For its operations, ICE will perform transactions at the exchange rates established by BCCR at the date of the transactions.

Sensitivity analysis

The table below shows the sensitivity to a strengthening or weakening of the exchange rate of the US dollar with respect to the colon. Grupo ICE applies a sensitivity rate of 10%, which represents its best estimate of the exchange rate variations of the US dollar with respect to the colon.

		As of December 31,	
		2022	2021
<i>(Amounts in millions)</i>			
<i>Sensitivity to a strengthening of the exchange rate:</i>			
Net position in US dollars at the closing exchange rate	¢	1,129,540	1,547,525
Net position in US dollars	US\$	1,890	2,408
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	¢	1,242,494	1,702,278
Loss	¢	(112,954)	(154,753)
<i>Sensitivity to a weakening of the exchange rate:</i>			
Net position in US dollars at the closing exchange rate	¢	1,129,540	1,547,525
Net position in US dollars	US\$	1,890	2,408
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	¢	1,016,586	1,392,772
Gain	¢	112,954	154,753

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

The table below shows the sensitivity as to a strengthening or weakening of the exchange rate of the Yen with respect to the colon. Grupo ICE applies a sensitivity rate of 10%, which represents its best estimate of exchange rate variations of the Yen with respect to the colon.

<i>(Amounts in millions)</i>		<u>As of December 31,</u>	
		<u>2022</u>	<u>2021</u>
<i>Sensitivity to a strengthening of the exchange rate:</i>			
Net position in Yen at the closing exchange rate	¢	97,463	125,874
Net position in Yen	JPY	21,502	22,544
Net position in Yen at the closing exchange rate with a 10% strengthening of the exchange rate	¢	<u>107,209</u>	<u>138,461</u>
Loss	¢	<u>(9,746)</u>	<u>(12,587)</u>
<i>Sensitivity to a weakening of the exchange rate:</i>			
Net position in Yen at the closing exchange rate	¢	97,463	125,874
Net position in Yen	JPY	21,502	22,544
Net position in Yen at the closing exchange rate with a 10% weakening of the exchange rate	¢	<u>87,717</u>	<u>113,287</u>
Gain	¢	<u>9,746</u>	<u>12,587</u>

This analysis assumes that all other variables remain constant, particularly interest rates and foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

Through its Corporate Policy for Financial Risk and Financial Hedging Management and its Risk Strategy, Grupo ICE adopts a financial hedging policy that establishes that the minimum interest rate risk exposure at a variable rate is 40%. This is achieved by entering into fixed-rate hedge instruments or by considering liabilities at a fixed rate. By using interest rate swaps, the variability in cash flows attributable to interest rate risk is hedged.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Exposure to interest rate risk

Grupo ICE maintains significant assets and liabilities, mainly represented by temporary investments, long-term investments, bonds payable, loans payable and lease liabilities, which are subject to interest rate variations, using as reference the LIBOR and the base deposit rate set by BCCR.

Details of the interest rates on financial assets and liabilities are provided in the following notes:

	Note
Notes and other accounts receivable, net	11
Investments in financial instruments	12 and 14
Bonds payable	17(a)
Loans payable	17(b)
Lease liabilities	17(c)

As of the date of the consolidated financial statements, the interest rate profile related to financial instruments is as follows:

	Nominal amount	
	2022	2021
Fixed-rate instruments:		
Financial assets	¢ 466,799	332,795
Financial liabilities	(1,018,725)	(1,062,355)
	(551,926)	(729,560)
Effect of interest rate swaps	-	-
	¢ (551,926)	(729,560)
Variable-rate instruments:		
Financial assets	¢ 262,582	295,774
Financial liabilities	(1,636,615)	(1,922,416)
	(1,374,033)	(1,626,642)
Effect of interest rate swaps	32	(647)
	¢ (1,374,001)	(1,627,289)

Sensitivity analysis

In managing interest rate risk, Grupo ICE aims to reduce the impact of short-term fluctuations on its earnings. With respect to investments in financial instruments, bonds payable, loans payable and lease liabilities, permanent changes in interest rates would affect its profit or loss.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

Fixed rates: it is estimated that an overall increase or decrease of one percentage point in fixed interest rates would have caused the following changes in financial assets and liabilities:

		Effect on profit or loss - Expense			
		As of December 31,			
		2022		2021	
		1% strengthening	1% weakening	1% strengthening	1% weakening
Investments in financial instruments	¢	4,668	(4,668)	3,328	(3,328)
Bonds payable		(7,251)	7,251	(8,001)	8,001
Loans payable		(2,638)	2,638	(2,618)	2,618
Lease liabilities		(298)	298	(5)	5
	¢	<u>(5,519)</u>	<u>5,519</u>	<u>(7,296)</u>	<u>7,296</u>

Variable rates: it is estimated that an overall increase or decrease of one percentage point in variable interest rates would have caused the following changes in financial assets and liabilities:

		Effect on profit or loss - Expense			
		As of December 31,			
		2022		2021	
		1% strengthening	1% weakening	1% strengthening	1% weakening
Investments in financial instruments	¢	844	(844)	1,143	(1,143)
Bonds payable		1,782	(1,782)	1,815	(1,815)
Loans payable		(1,486)	1,486	(2,121)	2,121
Lease liabilities		(11,847)	11,847	(13,135)	13,135
Investments in financial instruments		(3,033)	3,033	(3,968)	3,968
	¢	<u>(13,740)</u>	<u>13,740</u>	<u>(16,266)</u>	<u>16,266</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)c) Derivative assets and liabilities designated as fair value hedges

Cash flows related to derivative financial instruments at fair value are shown below. Expected cash flows consider the projected estimates for each derivative:

	December 31, 2022						
	Fair value	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency risk</u>							
Forward exchange contracts							
Cross-currency swap	¢ (3,047)	1,164	290	460	373	41	-
Cross-currency swap	(265)	1,504	859	339	275	31	-
Non-deliverable currency swap - Tranche a-1	(33)	6	4	2	-	-	-
<u>Interest rate risk</u>							
Interest rate swaps							
Forward starting swap	32	200	134	66	-	-	-
	¢ (3,313)	2,874	1,287	867	648	72	-

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

Cash flows related to derivative financial instruments at fair value as of December 31, 2021, are shown below. Expected cash flows consider the projected estimates for each derivative:

	December 31, 2021						
	Fair value	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<u>Currency risk</u>							
Forward exchange contracts							
Cross-currency swap	¢ (3,669)	2,009	400	669	807	133	-
Cross-currency swap	488	1,482	295	494	595	98	-
Non-deliverable currency swap - Tranche a-1	(58)	84	34	42	8	-	-
<u>Interest rate risk</u>							
Interest rate swaps							
Forward starting swap	(647)	270	256	14	-	-	-
	¢ (3,886)	3,845	985	1,219	1,410	231	-

For fair value hedges, expected cash flows for the primary instrument and the hedging derivative as of December 31, 2022 and 2021 are presented below.

	December 31, 2022		
	Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢ 4,258	4,258	-
	December 31, 2021		
	Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢ 18,316	9,158	9,158

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

As of December 31, 2022, the general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

	PR003 Tranche A D091319	PFI -019 US dollar/colon Tranche A- I E15-96556	PR004 Yen NEM120618ICE	PF-021 Yen C34569
Financial instrument debt	BID-1931 A/OC-CR	PR003	JIBC-CR-P3	JIBC-CR-P3
Bank	CITIBANK	CITIBANK	CITIBANK	SCOTIABANK
Principal amount (nominal amount)	USD 14.3	USD 14.3	JPY 1,706.9	JPY 1,739.8
Agreed amount (at exchange rate)	USD -	CRC 7,595	USD 18.8	USD 14.1
Change in the value of the derivative financial instrument recognized in profit or loss	USD 0.1	USD (0.060)	USD (5.1)	USD (0.4)
Line in the statement of profit or loss	Expense account: Valuation of financial instruments	Expense account: Valuation of financial instruments	Expense account: Valuation of financial instruments	Expense account: Valuation of financial instruments
Exchange rate	N/A	CRC 533	USD 91	USD 123.3
Contract date	1/27/2009	9/18/2015	10/20/2009	12/3/2015
Derivative financial instrument inception date or first payment	1/14/2010	1/14/2016	10/22/2012	4/20/2016
Derivative financial instrument maturity date	7/14/2023	7/14/2023	4/20/2026	4/20/2026
Term	14 years	7 years, 8 months and 5 days	14 years	10 years, 5 months
Base rate	6M LIBOR	3.23%	-	-
Spread over/under base rate	3.63%	-	2.20%	-
Fixed rate	-	-	-	-
Total fixed rate	6.86%	4.23%	5.11%	5.01%
Strategy	Derivative financial instrument	Derivative financial instrument	Derivative financial instrument	Derivative financial instrument
Related risk	Interest rate	Exchange rate Us dollar/colón	Exchange rate Yen/US dollar	Exchange rate Yen/US dollar
Instrument	Interest rate swap	Non-deliverable exchange of payment flows	Cross-currency swap	Non-deliverable currency swap

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

As of December 31, 2021, the general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

	PR003 Tranche A D091319		PFI-019 US dollar/colon Tranche A-1 E15-96556		PR004 Yen NEM120618ICE		PF-021 Yen C34569	
Financial instrument debt	BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3	
Bank	CITIBANK		CITIBANK		CITIBANK		SCOTIABANK	
Principal amount (nominal amount)	USD	28.5	USD	28.5	JPY	2,194.6	JPY	2,236.9
Agreed amount (at exchange rate)	USD	-	CRC	15,191	USD	24.1	USD	18.1
Change in the value of the derivative financial instrument recognized in other comprehensive income	USD	(1.0)	USD	(0.091)	USD	(5.7)	USD	0.8
Line in the statement of profit or loss	Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments	
Exchange rate	N/A		CRC	533	USD	91	USD	123.3
Contract date	1/27/2009		9/18/2015		10/20/2009		12/3/2015	
Derivative financial instrument inception date or first payment	1/14/2010		1/14/2016		10/22/2012		4/20/2016	
Derivative financial instrument maturity date	7/14/2023		7/14/2023		4/20/2026		4/20/2026	
Term	14 years		7 years, 8 months and 5 days		14 years		10 years, 5 months	
Base rate	6M LIBOR		3.23%		-		-	
Spread over/under base rate	3.63%		-		2.20%		-	
Fixed rate	-		-		-		-	
Total fixed rate	6.86%		4.23%		5.11%		5.01%	
Strategy	Derivative financial instrument		Derivative financial instrument		Derivative financial instrument		Derivative financial instrument	
Related risk	Interest rate		Exchange rate Us dollar/colón		Exchange rate Yen/US dollar		Exchange rate Yen/US dollar	
Instrument	Interest rate swap		Non-deliverable exchange of payment flows		Cross-currency swap		Non-deliverable currency swap	

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Capital management

Article 17 of Chapter IV “Equity and Earnings” of the *Law to Create the Costa Rican Electricity Institute* (Law No. 449) dated April 8, 1949 sets forth that “ICE’s financial policy will be to reinvest its net profit from the sale of electricity and from any other sources in financing and executing national electrification plans and promoting the electricity industry.” The Government shall not receive any portion of that profit since ICE is not to be considered a productive source of revenue for the Costa Rican Internal Revenue Service. Instead, it is to use all means at its disposal to increase the production of electricity as a basic industry of Costa Rica.

The policy is to maintain a strong capital base so as to maintain general market confidence and secure the future growth of ICE. Capital management aims at ensuring that capital and financial investments have the highest returns by adequately balancing the debt level and the capital invested, reducing risk.

In 2022 and 2021, Grupo ICE’s capital management remained unchanged and Grupo ICE was not subject to external capital requirements.

Grupo ICE’s adjusted debt/equity ratio on the date of the consolidated statement of financial position is as follows:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Debt to equity ratio		
Total liabilities	¢ 3,680,501	4,028,963
Less cash and cash equivalents	<u>(338,778)</u>	<u>(429,632)</u>
Net debt	<u>3,341,723</u>	<u>3,599,331</u>
Total equity	2,803,662	2,636,361
Less:		
Less amounts accumulated in equity related to cash flow hedges	-	<u>(2,658)</u>
Adjusted equity	¢ <u>2,803,662</u>	<u>2,633,703</u>
Debt to equity ratio	<u>1,19</u>	<u>1,37</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 31. Contingent assets and liabilities**

Grupo ICE is a defendant in various lawsuits estimated in the amount of ¢574,148. As of December 31, 2022, the provision for those lawsuits amounts to ¢25,296 (2021: ¢3,379); see Note 22.

Below are the main proceedings which amounts have been estimated and provisions recorded (see Note 22) in the consolidated financial statements:

- a) Process for execution of judgment (administrative proceedings), in which Hidroflorencia, S.A. requests the payment of 10% of the net gains or benefits that would have been obtained by the plaintiff during the entire term of the contract for the sale/purchase of energy set forth in Law No. 7200 (15 years). Based on the opinion of the legal counsel, the amount provisioned for this case as of December 31, 2022 is ¢8,637.
- b) Lawsuit in which Grupo ICE is requested to annul the administrative proceedings for collection of the fine, also claiming abuse of discretionary power in the contract for purchase of energy from Vientos del Volcán, S.A. (independent power producer), in the amount of US\$3 million, (equivalent to ¢1,777). As of the December 2022 close, the preliminary hearing was pending. Based on the opinion of the legal counsel, Grupo ICE provisioned ¢1,777 for this lawsuit.
- c) Lawsuit in which ICE is required to reimburse an amount of US\$4.6 million (equivalent to ¢1,744) agreed to purchase Cable Visión on December 5, 2013, which is a response to tax contingencies payable to the Tax Administration for the entity's fiscal periods before the sale. Grupo ICE opposes to the amount of the claim, since deductions have to be applied to that amount in relation to the payments made for the periods running from 2010 to 2013. As of the December 2022 close, the court hearing is pending. As of December 31, 2022, based on the opinion of the legal counsel, Grupo ICE provisioned an amount of ¢1,744 associated with the resolution of this litigation (¢1,875 in 2021).
- d) Administrative proceedings (execution of judgment), in which Hidroeléctrica de Parismina, S.A. and Proveedora de Servicios Eléctricos de Guácimo PSEG Limitada filed a claim against Grupo ICE for the unilateral rescission of engagement letters agreed for the development of the project Hidroeléctrico de Parismina, S.A. A resolution by the First Chamber is pending, following ICE's response in the hearing for the appeal for annulment filed by the plaintiff. As of December 31, 2022 and 2021, based on the opinion of the legal counsel, ICE has provisioned an amount of ¢350.
- e) Ordinary administrative proceedings seeking reimbursement of penalties, early termination and execution of guarantees by Cable Visión. Grupo ICE filed a response to the petition on behalf of Cable Visión, attended the hearing and filed a brief with pleadings regarding the Assignment agreement – confidential. As of December 31, 2022 and 2021, based on the opinion of the legal counsel, ICE has provisioned for this case an amount of ¢201.

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Notes to the Consolidated Financial Statements
(In millions of colones)

- f) Ordinary administrative proceedings, seeking reimbursement of penalties, execution of performance bond and interests by Cable Visión. Cable Visión challenged the amount of the claim. Currently awaiting the Administrative Court to issue a ruling. As of December 31, 2022, based on the opinion of the legal counsel, the provision created for this case amounts to ¢121 (2021: ¢130).
- g) Labor lawsuit – CNFL employees: File No. 11-00219-1178-LA-6. This lawsuit seeks that the subsidiary CNFL recognize the payment of the general salary revaluations decreed by the General Directorate of the Civil Service as of January 1, 2008, which have not been covered by CNFL.

As of November 30, 2022, through vote No. 2022-3225, the Second Chamber reversed the appealed judgment. It accepted the petition and ordered the payment of the general salary revaluations decreed by the General Directorate of the Civil Service as of January 1, 2008, that had not been covered by the subsidiary CNFL, as well as the retroactive recognition of the salary differences generated due to the salary decrees published from January 1, 2008 to January 1, 2010, to date, as they became effective. The amount provisioned for this case as of December 31, 2022, is ¢11,479

Below are the main proceedings for which amounts have been estimated and based on the opinion of the legal counsel, management has not recognized any provision in the consolidated financial statements:

- a) Grupo ICE is a defendant in proceedings related to a complaint filed by P.H. Chucás S.A. In the opinion of the legal counsel, the outcome will likely be favorable for ICE. Therefore, the claimed amount was not provisioned. A description of the complaint is provided below:

The Chucás Hydroelectric Power Plant is a hydroelectric project located between the cantons of Mora and Atenas, in the provinces of San José and Alajuela, respectively. Its construction began in 2011 and the beginning of operations was scheduled for September 2014; however, due to delays in the construction process, the hydroelectric power plant was ready to start operations until November 2016. As a result of this delay, and in accordance with the power purchase agreement subscribed with that entity on February 3, 2011, Grupo ICE processed a fine in the amount of US\$9.4 million (equivalent to ¢5,092).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)

Subsequently, P.H. Chucás, S.A. began an arbitration process before the International Center for Conciliation and Arbitration (CICA), an entity affiliated to the Costa Rican-American Chamber of Commerce (AmCham), claiming the recognition of the excess costs incurred in the construction of the hydroelectric power plant and declaring that ICE was not entitled to a fine since the delay was caused by force majeure events. The alleged excess costs amount to US\$173 million (the budgeted cost for construction was US\$107 million, but the final cost reported to the arbitration tribunal was US\$280 million). P.H. Chucás, S.A. considers that these excess costs were the result of unforeseeable factors such as geological and other factors. In November 2017, CICA issued an arbitration award in favor of P.H. Chucás, S.A., determining that ICE had to pay the amount of the alleged excess costs, professional fees and other. Furthermore, the arbitration award indicated that ICE did not have the right to exercise the penalty clause (charging the aforementioned fine). The main argument of the arbitration tribunal was the obligation to pay the real cost or the real value of the power plant in order to restore the economic equilibrium of the agreement and to avoid the alleged unjust enrichment by ICE. The arbitration award required ICE to pay US\$112.7 million and ¢6,328.

On December 15, 2017, ICE filed an appeal for annulment of the aforementioned arbitration award before the First Chamber of the Supreme Court of Justice, arguing the existence of defects that render it invalid, namely: conflict of interest of the arbitrators, violation of due process, violation of the principle of impartiality, violation of the rules of the arbitration procedure due to denial of rights to a hearing on evidence and unequal treatment, lack of uniformity of the jurisprudence, violation of the regulations of public interest, among other. According to the Alternative Dispute Resolution Act, filing of an appeal for annulment does not suspend enforcement of the Arbitration Award; therefore, the contractor may invoke its enforcement. However, in order to do so, P.H. Chucás, S.A. would have to file judicial proceedings for execution of judgment against Grupo ICE, to which ARESEP would necessarily be a party as regulator of the electricity sector and entity responsible for setting rates.

On June 27, 2019, the First Chamber of the Supreme Court of Justice upheld the appeal for annulment filed by ICE and annulled the arbitration award, so the payment obligation disappeared.

On July 31, 2020, ICE received a notice from CICA, affiliated to AmCham, communicating a new arbitration requirement by P.H. Chucás, S.A.

On May 19, 2021, P.H. Chucás, S.A. formally filed the arbitration proceedings. Grupo ICE initially had 20 calendar days to file a response to petition. However, the original term was extended until June 23 due to the complexity and volume of the complaint, as well as the large number of evidence to be gathered by ICE, including documentary, expert witness and testimonial evidence, including official translations. On June 23, 2021, Grupo ICE filed the response to petition and filed an objection of lack of jurisdiction. Because of this and the possibility that the First Chamber may adjudge whether the proceedings should continue as an arbitration or in a judicial venue, it is not possible to estimate a date for conclusion of the case.

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Notes to the Consolidated Financial Statements
(In millions of colones)

Consequently, since P.H. Chucás, S.A. filed the formal arbitration proceedings in May 2021, it is as of that date that Grupo ICE must include and disclose the estimated amount, US\$362 million (equivalent to ¢216,241). Before that date there was only an arbitration request that was being challenged by Grupo ICE both in the arbitration and judicial venues.

In the opinion of Grupo ICE's management and its legal counsels, if the First Chamber of the Supreme Court of Justice accepts the objection of lack of jurisdiction and this matter is discussed in the Administrative Court, the probability of a favorable outcome for ICE is higher. Therefore, and based on the opinion of the legal counsel, the probability of an outflow of resources is considered remote.

- b) Lawsuit filed by the company P.H. Hidrotárcoles, S.A., file No. 15-006491-1027-CA in relation to the hydroelectric project started by that Company (the Capulín Hydroelectric Plant Project) and considered in power purchase agreement subscribed on April 24, 2012 by ICE and that entity (the plaintiff). According to the terms of agreement, once the start order was issued P.H. Hidrotárcoles, S.A. had to begin the construction of the plant in August 2012 and the beginning of commercial operations was scheduled for August 2015.

However, due to delays in the construction process, ICE initiated administrative proceedings in December 2015 seeking termination of this agreement as well as a reprimand and warning to P.H. Hidrotárcoles, S.A. due to noncompliance with the guaranteed date for beginning of operations, given that at the date when the plant should have been completed the progress was 20%.

On February 21, 2017, the Administrative Court of Appeals issued a final decision rejecting the precautionary measure requested by the entity. Consequently, ICE was able to continue with the termination proceedings. During the course of the proceedings, P.H. Hidrotárcoles, S.A. repeatedly attempted to stop them by filing motions for substitution of members of the Órgano Director (Directing Body) and it even filed a judicial complaint against the officials that make up that body; however, all motions of recusal were rejected and the judicial complaint was declared inadmissible by the Administrative Court in January 2018.

Lastly, on February 9, 2022, a new complaint seeking annulment and payment of damages with file No. 22-00344-1027-CA, presented by Hidrotárcoles against ICE, was received. On March 23, 2022, ICE filed the response to petition and submitted documentary evidence and offer of witnesses, legal grounds and preliminary objection of Litis Pendentia with regard to file No. 15-6491-1027-CA. Currently awaiting the preliminary hearing. As of December 31, 2022, the estimated amount is ¢303.606, and based on the opinion of the legal counsel, the probability of an outflow of resources is considered remote.

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Notes to the Consolidated Financial Statements
(In millions of colones)

- c) Execution proceedings, file No. 17-003025-1763-CJ, filed by Caja Costarricense de Seguro Social for legal collection against Grupo ICE, requesting payment of the contribution made by State-owned entities to the Disability, Old Age and Death Benefit System (RIVM), in accordance with Article 78 of the Employee Protection Law. An opposition is filed since ICE must make a reinvestment of its profits. Moreover, the collection relates to the subsidiaries of ICE, which is inadmissible. As of December 31, 2022 and 2021, the estimated amount is ¢2.186, and based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.
- d) Administrative proceedings (execution of judgment). ARESEP and SUTEL filed a lawsuit for the execution of attorney's fees, plus legal interest. The amount of such costs was executed based on the estimate of damages made by ICE, applying the schedule of fees, plus interest. On March 25, 2019, ICE answered the lawsuit, rejected the amounts requested by ARESEP and SUTEL and granted a payment of ¢1 for each of them. On October 21, 2020, a resolution was notified whereby ICE's appeal was admitted, the sentence was annulled and the file was returned to the court of first instance for a new sentence to be issued. As of the date of this report, the status of the case remains the same. As of December 31, 2022 and 2021, the estimated amount is ¢1,731, and based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.
- e) Lawsuit filed by the entity Hidroeléctrica Noble S.A. against the State, the subsidiary CNFL and ICE, seeking the declaration of dissolution of CNFL due to the maturity of its legal term. It also requests to order ICE to continue to provide CNFL services and to acquire the total shares of the plaintiff for the price as determined by the Tax Court of the Ministry of Finance. Moreover, it seeks ICE to assume all CNFL assets and liabilities and execute the payments of court and personal costs. In March 2022, ICE was notified that the preliminary hearing will be held on April 26, 2022. As of December 31, 2022 and 2021, the estimated amount is ¢814, and based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.
- f) Claim filed by the company Mina Moncada, S.A., seeking the recognition of losses to the value of and impairment of equipment due to lack of maintenance and continuity of the energy service. As of December 31, 2022, the estimated amount is ¢8,965, based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.
- g) Ghella Spa Costa Rica, S.A.: this claim seeks the annulment of the limitations established in an addendum to the contract with CNFL for design, construction, equipment and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount is ¢21,515, and based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.
- h) Instalaciones Inabensa, S.A.: this case was initiated for the collection of penalties during the project for underground electrification of San José with CNFL. The plaintiff seeks the collection of claims and reimbursement of penalties, filed during the stage of execution of the aforementioned project. The estimated amount is ¢5,974 and based on the opinion of the legal counsel, an outflow of resources for this claim is considered unlikely.

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Notes to the Consolidated Financial Statements
(In millions of colones)

- i) Grupo ICE is also a defendant in other proceedings with an estimated total of ¢8,486, related to the execution of contracts, labor and other concepts. As of December 31, 2022, based on the opinion of the legal counsel, an outflow of resources for these claims is considered unlikely.

Contingent assets:

Grupo ICE has also filed a number of lawsuits for a total of ¢9,987, which are in different stages. Most of them are related to goods and services suppliers. However, due to the characteristics of those assets, no amounts have been recorded in the consolidated financial statements.

Note 32. Balances and transactions with related parties

Grupo ICE is controlled indirectly by the public administration of the Government of Costa Rica. As part of its normal course of operations, Grupo ICE performs electric power distribution transactions, sale of telecommunications services and, to a lesser extent, sale of construction services to public administration related entities. The amounts for these services are not secured and are settled in cash. Maturities and payments occur under normal payment conditions.

Outstanding balances payable and receivable as of the end of the reporting period are as follows:

	Receivable		Payable	
	As of December 31,			
	2022	2021	2022	2021
Government entities	¢ 54,403	44,444	6,935	5,921
Autonomous institutions	8,832	2,532	-	-
Other related parties	3,840	-	-	-
Empresa Propietaria de la Red, S.A.	1,672	6,673	-	-
	¢ <u>68,747</u>	<u>53,649</u>	<u>6,935</u>	<u>5,921</u>

As of December 31, 2022, bonuses and loans payable with State-owned financial entities amounted to ¢400,725 and ¢777,471 (2021: ¢504,015 and ¢721,927), respectively (see Note 17 (a) and (b)).

The following balances correspond to financial investments placed through State-owned financial entities:

	Note	As of December 31,	
		2022	2021
Cash equivalents	16	¢ 19,728	2,780
Investments in financial instruments	12, 14	488,054	416,062
		¢ <u>507,782</u>	<u>418,842</u>

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As of December 31, 2022, interest on securities due from with State-owned financial entities amounts to ¢492 (2021: ¢125).

As of December 31, 2022, ownership interest in autonomous and non-governmental agencies amount to ¢5,727 (2021: ¢7,831) (see Note 10).

Compensation to key management personnel

Compensation to directors and other key management personnel, for the years ended 2022 and 2021, is as follows:

	For the year ended As of December 31,	
	2022	2021
Short-term benefits	¢ 5,636	5,962
Post-employment benefits	357	286
Other long-term benefits	309	380
Severance benefits	50	51
	¢ <u>6,352</u>	<u>6,679</u>

Compensation to key management personnel includes wages and contributions to a defined benefit plan (severance benefits) and other long-term benefits paid during the year.

Note 33. Segment information(a) Basis for segmentation

Grupo ICE has the following reportable segments:

- Telecom Segment, which includes ICE's Telecom Sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA) and Gestión Cobro Grupo ICE, S.A.
- Electricity Segment, which includes ICE's Electricity Sector, Compañía Nacional de Fuerza y Luz, S.A. (CNFL) and Gestión Cobro Grupo ICE, S.A.

Segment information is presented to the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance, focusing on Grupo ICE's different business segments that are subject to different risks and returns.

Profit or loss, assets and liabilities of the segment include items directly attributable to a segment as well as those that can be reasonably attributed. Information on each reporting segment is as follows.

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Notes to the Consolidated Financial Statements

(In millions of colones)(b) Products and services that generate revenue for the reportable segments

The types of products and services provided by each segment are detailed in note 1.

(c) Revenue and profit or loss by segment

Below is an analysis of revenue and profit or loss from the continuing operations of Grupo ICE's reportable segments:

Profit or loss by segment	For the years ended December 31,					
	Electricity		Telecom		Consolidated total	
	2022	2021	2022	2021	2022	2021
External revenues	¢ 814,469	728,646	574,441	564,995	1,388,910	1,293,641
Inter-segment revenue	7,405	7,209	1,824	2,881	9,229	10,090
	¢ 821,874	735,855	576,265	567,876	1,398,139	1,303,731
Depreciation and amortization	¢ 207,876	210,886	136,819	131,961	344,695	342,847
Finance income	16,763	18,178	18,503	15,200	35,266	33,378
Finance costs	(214,049)	(221,641)	(26,086)	(27,257)	(240,135)	(248,898)
Foreign exchange differences	90,617	(59,005)	(1,948)	(2,835)	88,669	(61,840)
Investments in joint ventures	-	-	(49)	47	(49)	47
Income tax	4,699	421	(311)	(55)	4,389	367
Net profit (loss)	¢ 173,161	(95,710)	17,858	2,677	191,019	(93,033)

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The revenue by segment reported in the previous table represents revenue generated by external clients. See Note 25 for a breakdown of that revenue by product.

- Corporate expenses are allocated to the different segments based on the Activity-based Costing (ABC) methodology, approved by the board of directors, which measures the costs of products and services based on the quantification of productive, operating and administrative activities necessary for the rendering of those products and services. This expense allocation methodology includes cost drivers as a way to guarantee a proper allocation of the costs of the support areas in the services provided to each segment. The bases of allocation used are called cost generators or drivers, through which the allocation of the resources consumed by the processes or activities is made.

The accounting policies of the reportable segments are the same as those of Grupo ICE. Revenue by segment represents the revenue obtained by each segment, excluding any share of profit or loss on investments, other gains or losses and finance costs that are not attributable to a specific segment. The foregoing represents the measurement reported to the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(d) Assets and liabilities by segment

	For the years ended December 31,					
	Electricity		Telecom		Consolidated total	
	2022	2021	2022	2021	2022	2021
Assets	¢ 5,012,375	5,193,254	1,471,788	1,472,070	6,484,163	6,665,324
Liabilities	¢ 3,002,974	3,341,389	677,527	687,574	3,680,501	4,028,963

To assess the performance and allocate resources to the segments:

- There are no assets or liabilities that are not assigned to the segments.
- All assets and liabilities used jointly by the reportable segments are allocated using the methodology for assignment of corporate expenses to the segments, which establishes the financing percentages according to the drivers defined by each business segment for the different services provided by the Administrative and Service Center areas to the business segments. Each service has a specific unit of measurement and the allocation is made based on consumption, using the Activity-based Costing (ABC) methodology, approved for Grupo ICE by the board of directors.

(Continued)

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Notes to the Consolidated Financial Statements
(In millions of colones)(e) Other segment information

	<u>Additions to non-current assets</u>	
	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Telecom	¢ 76,073	78,368
Electricity	80,217	72,531
Total	¢ <u>156,290</u>	<u>150,898</u>

Grupo ICE has disclosed all of the above amounts for each reported segment as these amounts are reviewed regularly by the highest decision-making authority and are included in the valuation of the profit or loss for each segment.

Note 34. Subsequent events*ICE Severance obligations*

On January 18, 2023, the Constitutional Chamber annulled due to unconstitutionality the regulation included Article 37(2) of ICE's Personnel Statute, which established that:

An employee who voluntarily resigns from the institution, after 10 years or more of continuous service, will have the right to receive a percentage of that accrued, according to the following table:

Years of service	Percentage upon resignation
10 to less than 11	25
11 to less than 12	30
12 to less than 13	35
13 to less than 14	40
14 to less than 15	45
15 to less than 16	50
16 to less than 17	60
17 to less than 18	70
18 to less than 19	80
19 to less than 20	90
20 and over	100

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Based on the foregoing, as of the effective date of the constitutional motion, the possibility for an employee hired under the Statutory Regime, after 10 years of continuous service, to avail himself to the voluntary resignation with the payment of severance following the table presented above is annulled. As of the date of this report, an allowance for the financial effects of this event has not been made.

If the employee resigns from ICE, it must be processed as a simple resignation with the payment of the corresponding severance benefits.