

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

Consolidated Financial Statements

December 31, 2017  
*(With corresponding figures for 2016)*

(With Independent Auditors' Report thereon)

(Translation into English of the original Independent  
Auditors' Report issued in Spanish)



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## Independent Auditors' Report

To the Board of Directors of  
Instituto Costarricense de Electricidad (ICE)

### *Qualified Opinion*

We have audited the consolidated financial statements of Instituto Costarricense de Electricidad (ICE) and Subsidiaries (Grupo ICE), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statements of income and expenses and other comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in paragraphs one, two, three, four and five included in the *Basis for Qualified Opinion* section, the accompanying consolidated financial statements of Grupo ICE as of December 31, 2017 and for the year then ended, were prepared, in all material respects, in accordance with the accounting policies accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica.

### *Basis for Qualified Opinion*

As indicated in note 7-d (i), during 2016, Grupo ICE adopted the component accounting policy for its property, plant and equipment by adjusting its accounting records starting 2016. However, one of its subsidiaries did not perform the corresponding technical analysis to identify which part of the elements of property, plant and equipment must be divided into components thus requiring accounting as separate components. The net carrying amount of the subsidiary's property, plant and equipment subject to the aforementioned analysis is ₡492,629 (in millions) as of December 31, 2017 (2016: ₡518,253 million). Accordingly, we were unable to determine whether it would have been necessary to perform an adjustment to depreciation expenses, accumulated depreciation, and retained earnings of that subsidiary as of and for the year ended December 31, 2017.



## Independent Auditors' Report

To the Board of Directors of  
Instituto Costarricense de Electricidad (ICE)

### *Qualified Opinion*

We have audited the consolidated financial statements of Instituto Costarricense de Electricidad (ICE) and Subsidiaries (Grupo ICE), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statements of income and expenses and other comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in paragraphs one, two, three, four and five included in the *Basis for Qualified Opinion* section, the accompanying consolidated financial statements of Grupo ICE as of December 31, 2017 and for the year then ended, were prepared, in all material respects, in accordance with the accounting policies accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica.

### *Basis for Qualified Opinion*

As indicated in note 7-d (i), during 2016, Grupo ICE adopted the component accounting policy for its property, plant and equipment by adjusting its accounting records starting 2016. However, one of its subsidiaries did not perform the corresponding technical analysis to identify which part of the elements of property, plant and equipment must be divided into components thus requiring accounting as separate components. The net carrying amount of the subsidiary's property, plant and equipment subject to the aforementioned analysis is ¢492,629 (in millions) as of December 31, 2017 (2016: ¢518,253 million). Accordingly, we were unable to determine whether it would have been necessary to perform an adjustment to depreciation expenses, accumulated depreciation, and retained earnings of that subsidiary as of and for the year ended December 31, 2017.



As indicated in note 18, and as required in its accounting policy on prepaid expenses, during 2016, ICE amortized the cost incurred in purchases of electricity from independent power producers, using as reference the approval and communication of the Intendencia de Energía [Energy Management Office] stating that the cost amounting to ¢24,394 (in millions) would be included in the electricity rates to be applied in the period from January to December 2016. However, we were informed that such cost was not included in the rates for that period; therefore, the recognition by the Energy Management Office was transferred to the 2017 rate-setting process. ICE's management decided not to modify the accounting treatment used in 2016 applied to that cost, considering that the process used to amortize that cost was based on the Energy Management Office's approval and communication to include that cost in the 2016 rates. The accounting treatment given to that cost in 2016 does not agree with the accounting policy mentioned in item (i) *Prepaid expenses* of note 7-d) *Current asset policies*, which gives rise to an underestimated net surplus in 2016, an overestimated net surplus in 2017, and underestimated "*Prepaid expenses*" in the amount of ¢24,394 (in millions) as of and for the year ended December 31, 2016.

As part of the audit as of December 31, 2017, the "Inventory" and "Other Inventory Assets-Investment" accounts, which amount to ¢220,996 as of that date, were subject to a physical inventory count performed after the reporting date. However, since the inventory subledgers were not available at the time of the physical count, nor records of the movements in inventory subsequent to December 31, 2017, we were unable to retrospectively rebuild the amounts and inventory in stock as of that date or to compare the results of the physical count of the selected items to identify potential differences with the accounting records. Consequently, we were unable to satisfy ourselves as to the operating and investment inventory in stock as of December 31, 2017, and we were unable to determine whether adjustments might have been necessary to the amounts shown in the financial statements for operating inventory, investment inventory, and net surplus as of and for the year then ended.

We were unable to conclude our testing of subsequent payments on accounts payable as of December 31, 2017, given that there were no subledgers after that date that would allow us to identify potential liabilities that should have been recorded. As of December 31, 2017, those accounts payable amount to ¢41,791 (in millions). In addition, confirmations of balances payable as of December 31, 2017 were sent to suppliers; however, in some cases we received no response and were unable to perform other audit procedures. For a sample of suppliers selected, we were unable to verify compliance with the terms established in the agreements subscribed with those parties. Therefore, we were unable to determine whether any adjustments might have been necessary to the amounts shown in the financial statements for accounts payable, asset accounts, and net surplus as of and for the year ended December 31, 2017.



The audit of the consolidated financial statements includes obtaining sufficient appropriate evidence to confirm the existence of events occurring between the end of the reporting period and the date of issue of the consolidated financial statements that may affect the figures and disclosures presented therein. For this purpose, some audit procedures are considered, using different sources of information of the entity. Regarding ICE's financial information subsequent to December 31, 2017, we were unable to obtain updated financial statements and subledgers that would allow us to perform an appropriate review of subsequent events. In view of this limitation in the scope of our procedures, we were unable to obtain sufficient evidence that would allow us to establish the existence of transactions or subsequent events occurring between the 2017 reporting date and the date of issue of the auditors' opinion thereon, which may affect figures and disclosures presented therein. Thus, we were unable to determine whether any adjustments might have been necessary to the accompanying consolidated financial statements as of and for the year ended December 31, 2017.

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 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 qualified opinion.

#### *Emphasis of Matter - Basis of Accounting*

We draw attention to note 2 to the consolidated financial statements, which describes the basis of accounting used in preparing these consolidated financial statements, which is not an internationally recognized comprehensive basis of accounting. As indicated in that note, the consolidated financial statements have been prepared by Grupo ICE with the purpose of complying with the accounting principles accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica. As a result, these consolidated financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Such consolidated financial statements have been used by local regulators and creditors on a regular basis.

#### *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. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters below as key audit matters to be communicated in our report.

**The key audit matter**

1. Revenue recognition

ICE has two main sources of revenue, the Electricity Segment and the Telecom Segment. Of these two, recognition of revenue from the Telecom Segment is considered a key audit matter mainly due to the amount and the variety of products and systems used for revenue recognition.

**How the matter was addressed in our audit**

Our audit procedures in this area included control testing and substantive procedures, such as:

- evaluating relevant IT systems and the design and operating effectiveness of controls on the recording of revenue transactions, which included involving our IT specialists to assist us in the audit of automated controls;
- evaluating business process controls on the authorization of rate or price changes, the introduction of new plans to promote services, and the input of this information in the billing systems;
- evaluating access controls and change management controls for the billing systems;
- analyzing the reconciliation process performed by the *Billing and Revenue Management Office-Telecom Management* to determine the nature and origin of the reconciliation items evidenced between the collections received and accounts receivable from customers;
- identifying unusual items based on the revenue subledger, determining their nature and origin;
- performing analytic substantive testing on revenue;
- recalculating prepaid income from prepaid products; and
- establishing that the procedure to recognize revenue from billed services agrees with ICE's accounting policy.



**Key audit matter**

2. Employee benefits:

We considered this area to be a key audit matter mainly due to the judgments and estimates involved in determining actuarial and financial assumptions used to measure the employee benefits (severance) obligation and its impact on the presentation of Grupo ICE's consolidated financial statements.

**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 identified in the actuarial study performed by Grupo ICE, including the comparison of key assumptions with external data. The foregoing was performed with the support of our actuarial expert;
- performing audit testing to establish the completeness, accuracy, and sufficiency of the databases used by the actuaries hired by Grupo ICE to measure the aforementioned benefits;
- assessing the accounting treatment of the economic benefits evidenced by the aforementioned actuarial study in view of Grupo ICE's accounting policies; and analyzing the adequacy of the disclosures included in the notes to the consolidated financial statements on the sensitivity analysis of certain assumptions used in the actuarial study; and
- recalculating the actuarial study performed.

<u>Key audit matter</u>	<u>How the matter was addressed in our audit</u>
3. Provisions and contingent liabilities	
<p>We consider this area to be a key audit matter mainly because the elements considered for the measurement, recording, and disclosure of a contingent liability involve a significant level of judgment and the uncertainty of the sources of information used for that measurement.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"><li>• obtaining information regarding the control process designed for the determination, compilation, analysis, and follow-up of legal proceedings or lawsuits against ICE;</li><li>• obtaining details of all of the legal proceedings as of December 31, 2017, identifying the probability of a favorable outcome assigned and its impact on the consolidated financial statements;</li><li>• recalculating the provisions measured by management, analyzing the appropriateness of the timing of the recording of such provisions in relation to the timing of the facts that support it;</li><li>• discussing open or ongoing legal proceedings with the corresponding professionals of the Corporate Legal Division, analyzing and challenging the elements used to determine the probability of a favorable outcome assigned to those cases, based on a selected sample of current cases or lawsuits;</li><li>• analyzing the provisioned amount for contingent liabilities derived from lawsuits, and determining the sufficiency of the analysis performed by management regarding the probability of an unfavorable outcome, considering the policy included in ICE's Accounting Policy Manual.</li><li>• the estimation of the provisions is subject to inherent uncertainty; accordingly, the analysis to determine a reasonable range for provisioning is made within the context of that uncertainty.</li></ul>



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

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting principles accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica, 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 consolidated financial reporting process.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objective is 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.





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- 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.
- 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 audit of Grupo ICE. 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, related safeguards.

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

May 28, 2018

San José, Costa Rica  
Armin Campos Villalobos  
Member No. 663  
Policy No. 0116-FIG-7  
Expires 09/30/2018



€1,000 tax stamp paid pursuant to Law No. 6663  
and affixed to the original document



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

Consolidated Statement of Financial Position  
(In millions of colones)

December 31, 2017

(With corresponding restated figures for 2016 and restated figures for 2015)

<u>Assets</u>	<u>Note</u>	<u>2017</u>	<u>2016</u> <u>(Restated)*</u>	<u>2015</u> <u>(Restated)*</u>
<b>Non-current assets:</b>				
Property, plant and equipment, net	8	¢ 5,013.533	5,025.012	4,311.029
Intangible assets	9	92.078	87.604	103.415
Equity investments	10	30.686	30.431	171.799
Notes and other accounts receivable	11	3.159	9.457	42.137
Investments in financial instruments	12	134.296	98.073	53.540
Guarantee and Savings Fund	13	221.056	208.826	214.567
<b>Total non-current assets</b>		<u>5,494.808</u>	<u>5,459.403</u>	<u>4,896.487</u>
<b>Current assets:</b>				
Inventories, net	14	97.039	94.276	75.594
Notes and other accounts receivable, net	11	43.848	36.399	35.316
Temporary investments, net	15	30.240	112.639	106.525
Restricted funds	16	16.822	28.518	11.333
Trade receivables, net	17	106.144	95.972	90.118
Prepaid expenses	18	69.788	71.743	92.762
Other assets		2.680	2.692	548
Cash and cash equivalents	19	172.904	174.224	181.221
<b>Total current assets</b>		<u>539.465</u>	<u>616.463</u>	<u>593.417</u>
<b>Total assets</b>		<u>¢ 6,034.273</u>	<u>6,075.866</u>	<u>5,489.904</u>

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

Consolidated Statement of Financial Position  
(In millions of colones)

December 31, 2017

(With corresponding restated figures for 2016 and restated figures for 2015)

Liabilities and equity	Note	2017	2016 (Restated)*	2015 (Restated)*
<b>Equity:</b>				
Paid-in capital	211	156	156	156
Other reserves	13.666	12.050	10.761	10.761
Asset revaluation reserve	-	-	1.083.980	1.083.980
Restricted retained earnings from capitalization of shares in subsidiary	62.380	62.380	62.380	62.380
Actuarial gain (loss)	8.811	(20.286)	(8.531)	(8.531)
Income from investments in other companies	(148)	(251)	-	-
Valuation of non-derivative financial instruments and hedges	(16.267)	(7.412)	2.943	2.943
Retained earnings	203.232	219.182	47.824	47.824
Development reserve	2.506.594	2.541.155	1.590.294	1.590.294
Equity attributable to owners of ICE	2.778.479	2.806.974	2.789.807	2.789.807
Minority interests	4.314	4.586	4.891	4.891
Net equity	2.782.793	2.811.560	2.794.698	2.794.698
<b>Liabilities:</b>				
<b>Non-current liabilities:</b>				
Securities payable	20	1.151.314	1.123.489	1.104.665
Loans payable	20	883.003	869.919	795.373
Finance lease obligations	20	491.909	494.750	25.811
Employee benefits	21	83.855	104.049	120.540
Accounts payable	22	8.564	9.241	7.398
Prepaid income	23	7.008	6.071	6.378
Guarantee and Savings Fund	13	221.056	208.826	214.567
Other provisions	24	609	232	149
Other liabilities	25	52.610	52.772	49.302
Total non-current liabilities		2.899.928	2.869.349	2.324.183
<b>Current liabilities:</b>				
Securities payable	20	-	25.000	26.891
Loans payable	20	100.530	91.351	90.826
Finance lease obligations	20	16.703	14.618	735
Employee benefits	21	24.772	26.516	21.583
Accounts payable	22	98.386	126.168	113.116
Prepaid income	23	18.361	16.198	16.759
Accrued employer obligations payable	26	52.228	49.966	54.555
Accrued interest payable		21.149	21.454	23.935
Other provisions	24	3.034	4.446	4.919
Other liabilities	25	16.389	19.240	17.704
Total current liabilities		351.552	394.957	371.023
Total liabilities		3.251.480	3.264.306	2.695.206
Total liabilities and equity		6.034.273	6.075.866	5.489.904
<b>Memoranda accounts</b>	27	238.713	210.739	346.685

\* See notes 39 and 40.

The notes on pages 1 to 213 are an integral part of these consolidated financial statements.

Catalina Vargas Corrales  
Catalina Vargas Corrales  
Chief Financial Officer

Jesús Ortiz Delgado  
Head of the Finance Department

Lizbeth Hernández Castillo  
Accounting Process Coordinator



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

Consolidated Statement of Income and Expenses and Other Comprehensive Income  
(In millions of colones)

For the year ended December 31, 2017  
(With corresponding restated figures for 2016)

	<u>Note</u>	<u>2017</u>	<u>2016</u> (Restated)*
<b>Operating income:</b>			
Electricity services		¢ 767.278	804.015
Telecom services		590.656	576.515
<b>Total operating income</b>	28	<u>1.357.934</u>	<u>1.380.530</u>
<b>Operating costs:</b>			
Operation and maintenance	29	512.892	498.804
Operation and maintenance of leased equipment	30	101.101	91.794
Supplemental services and purchases	31	172.508	180.215
Production management		76.648	82.540
<b>Total operating costs</b>		<u>863.149</u>	<u>853.353</u>
<b>Gross surplus</b>		<u>494.785</u>	<u>527.177</u>
<b>Other income</b>	37	57.029	52.388
<b>Operating expenses:</b>			
Administrative	32	117.428	106.517
Selling	33	234.405	233.479
Pre-investment studies	34	3.365	5.156
Preliminary studies	35	21.005	23.442
Supplemental	36	3.700	9.562
Other expenses		24.546	22.426
<b>Total operating expenses</b>		<u>404.449</u>	<u>400.582</u>
<b>Operating surplus</b>		<u>147.365</u>	<u>178.983</u>
<b>Finance income and finance costs:</b>	38		
Investment income		29.511	29.421
Finance costs		(177.780)	(126.521)
Foreign exchange differences, net		(49.955)	(50.913)
Income from investments in other companies		406	392
<b>Total finance income and finance costs</b>		<u>(197.818)</u>	<u>(147.621)</u>
<b>Net (deficit) surplus before income tax</b>		<u>(50.453)</u>	<u>31.362</u>
Income tax		(1.516)	(1.306)
Deferred tax		(15)	(53)
Non-controlling interests		278	374
<b>Net (deficit) surplus</b>		<u>¢ (51.706)</u>	<u>30.377</u>

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

Consolidated Statement of Income and Expenses and Other Comprehensive Income  
(In millions of colones)

For the year ended December 31, 2017  
(With corresponding restated figures for 2016)

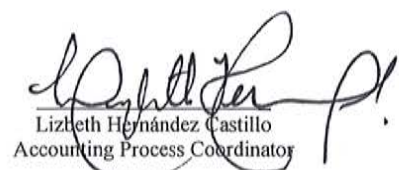
	Note	2017	2016 (Restated)*
Net (deficit) surplus		¢ (51.706)	30.377
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurement of defined benefit liability (asset)	21	29.097	(11.799)
Effect of eliminations of reciprocal transactions		1.679	3.479
<b>Subtotal</b>		<b>30.776</b>	<b>(8.320)</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net loss on fair value of cash flow hedges		(6.445)	(9.446)
Change in fair value of available-for-sale financial assets		(2.410)	(909)
<b>Subtotal</b>		<b>(8.855)</b>	<b>(10.355)</b>
<b>Other comprehensive income</b>		<b>21.921</b>	<b>(18.675)</b>
<b>Total comprehensive income for the year</b>		<b>(29.785)</b>	<b>11.702</b>
<b>Income for the year attributable to:</b>			
Owners of ICE		(51.984)	30.003
Non-controlling interests		278	374
<b>Total</b>		<b>(51.706)</b>	<b>30.377</b>
<b>Total comprehensive income for the year attributable to:</b>			
Owners of ICE		(29.785)	11.606
Non-controlling interests		-	96
<b>Total</b>		<b>(29.785)</b>	<b>11.702</b>

\* See notes 39 and 40.

The notes on pages 1 to 213 are an integral part of these consolidated financial statements.

  
Catalina Vargas Corrales  
Chief Financial Officer

  
Jesús Orozco Delgado  
Head of the Finance Department

  
Lizbeth Hernández Castillo  
Accounting Process Coordinator



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

Consolidated Statement of Changes in Equity  
(In millions of colones)

For the year ended December 31, 2017  
(With corresponding retained figures for 2016)

Note	Paid-in capital	Asset revaluation reserve	Valuation of non- derivative financial instruments and hedges	Other reserves				Retained retained earnings from capitalization of investment in subsidiary	Profit (loss) on investment in other companies	Equity attributable to owners of ICE	Non-controlling interests	Net equity
				Development reserve	Legal reserve	Project development reserve	Forest development reserve					
Balance at January 1, 2016, previously reported	156	1,083,980	2,943	1,582,926	10,142	71	548	62,380	(10,380)	2,779,904	4,891	2,784,795
Effect of adjustments due to correction of errors and changes in accounting policies from prior years:												
Effect of correction of errors	-	-	-	8,485	-	-	-	-	-	9,262	-	9,262
Effect of changes in accounting policies	-	-	-	(591)	-	-	-	-	1,858	1,267	-	1,267
Effect of eliminations of reciprocal transactions	-	-	-	(620)	-	-	-	-	-	(626)	-	(626)
Balance at January 1, 2016, restated	156	1,083,980	2,943	1,590,294	10,142	71	548	62,380	(8,531)	2,789,807	4,891	2,794,698
Transfer of revaluation surplus to the development reserve and retained earnings due to application of adjusted cost	-	(1,086,305)	-	919,470	-	-	-	-	-	3,937	-	3,937
Appropriation to legal reserve	-	-	-	-	1,837	-	-	-	-	1,837	-	1,837
Effect of appropriation to and realization of forest development	-	-	-	-	-	-	(548)	-	-	-	-	-
Profit (loss) on investments in other companies	-	-	-	-	-	-	-	-	(284)	(284)	-	(284)
Net surplus before appropriation to non-controlling interest	-	-	-	27,912	-	-	-	-	33	30,005	-	30,005
Other comprehensive income for the year:	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement of defined benefit liability (asset)	-	-	-	-	-	-	-	-	(11,799)	(11,799)	-	(11,799)
Effect of eliminations of reciprocal transactions	-	-	(9,446)	3,479	-	-	-	-	44	3,523	-	3,523
Net loss on fair value of cash flow hedges	-	-	(909)	-	-	-	-	-	-	(9,446)	-	(9,446)
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(909)	-	(909)
Appropriation to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(305)	(305)
Balance at December 31, 2016, restated	156	2,325	(7,412)	2,541,155	11,979	71	-	62,380	(20,285)	2,806,974	4,586	2,811,560
Paid-in capital	55	-	-	-	-	-	-	-	-	56	-	111
Profit (loss) on investments in other companies	-	-	-	-	-	-	-	-	-	103	-	103
Appropriation to legal reserve	-	-	-	-	1,616	-	-	-	-	-	-	-
Net surplus (deficit) before appropriation to non-controlling interest	-	-	-	(36,240)	-	-	-	-	-	(15,744)	-	(51,984)
Other comprehensive income for the year:	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement of defined benefit liability (asset)	-	-	-	-	-	-	-	-	-	-	-	-
Effect of eliminations of reciprocal transactions	-	-	(6,445)	1,679	-	-	-	-	29,097	30,014	-	30,014
Net loss on fair value of cash flow hedges	-	-	(2,410)	-	-	-	-	-	-	1,844	-	1,844
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(6,445)	-	(6,445)
Appropriation to non-controlling interests	-	-	-	-	-	-	-	-	-	(2,410)	-	(2,410)
Balance at December 31, 2017	211	-	(16,267)	2,506,594	13,595	71	-	62,380	8,811	2,778,479	4,314	2,782,793

The notes on pages 1 to 213 are an integral part of these consolidated financial statements.

**Carlos Vargas Carriles**  
Chief Financial Officer

**Jesús Osorio Delgado**  
Head of the Finance Department

**Elizabeth Castillo**  
Accounting Process Coordinator

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, 2017  
(With corresponding restated figures for 2016)


	Note	2017	2016 (Restated)*
Cash flows from operating activities:			
(Deficit) surplus for the year	g	(51.706)	30.377
Adjustments for:			
Depreciation		285.139	286.341
Finance costs		133.313	123.967
Severance benefits		13.993	19.817
Statutory Christmas bonus		17.728	17.412
Back-to-school bonus		18.233	17.631
Accrued vacation		15.589	15.486
Provision for contingent liabilities			
Allowance for doubtful accounts		7.251	9.763
Allowance for valuation of inventory		3.742	792
Expense on disposal of assets		30.739	23.256
Absorption of amortizable and intangible items		21.672	24.343
Provision for contingent liabilities		(859)	255
Net realizable value		4.383	(2.662)
Provision for mobile terminals		927	638
Foreign exchange differences	20 (d)	49.378	57.123
Loss on valuation of financial instruments		(14.517)	(15.479)
Finance income		(15.656)	(12.890)
		519.349	596.170
Changes in:			
Increase (decrease) in trade receivables and other accounts receivable		(18.397)	16.601
Increase in inventories		(10.888)	(16.812)
Decrease in other assets		13.713	3.834
(Decrease) increase in accounts payable		(28.459)	14.895
(Decrease) increase in security deposits		(162)	3.470
Increase (decrease) in prepaid income		3.100	(868)
Decrease in severance benefits		(682)	(5.700)
Decrease in employer obligations		(49.288)	(55.118)
Increase (decrease) in other liabilities		10.015	1.857
Cash flows from operating activities		438.301	558.329
Interest paid		(144.304)	(143.905)
Interest received		15.478	12.893
Net cash from operating activities		309.475	427.317
Cash flows from investing activities			
Trust investments		-	137.869
Increase in long-term investments		(36.478)	(41.536)
Additions to property, plant and equipment		(280.212)	(515.069)
Increase in other assets		(43.263)	(37.083)
Decrease (increase) in temporary investments		82.399	(6.114)
Net cash used in investing activities		(277.554)	(461.933)
Cash flows from financing activities:			
Increase in securities payable	20 (d)	6.327	15.500
Amortization of securities payable	20 (d)	(25.392)	(27.597)
Increase in loans payable	20 (d)	91.983	157.411
Amortization of loans payable	20 (d)	(91.349)	(110.109)
Amortization of finance leases	20 (d)	(14.810)	(7.586)
Net cash (used in) from financing activities		(33.241)	27.619
Net decrease in cash and cash equivalents		(1.320)	(6.997)
Cash and cash equivalents at beginning of year		174.224	181.221
Cash and cash equivalents at end of year	19 g	172.904	174.224

\* See note 39.

The notes on pages 1 to 213 are an integral part of these consolidated financial statements

  
Catalina Vargas Corrales  
Chief Financial Officer

  
Jesús Ordoñez Belgado  
Head of the Finance Department

  
Lisseth Hernández Castillo  
Accounting Process Coordinator



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)December 31, 2017  
(With corresponding figures from 2016)**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 ICE (parent company and ultimate controlling entity) and its wholly-owned operating 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. (CVCRSA), and Gestión de Cobro Grupo ICE S.A., all organized under the laws of the Republic of Costa Rica. ICE is also sole owner of other companies that do not have operations as of December 31, 2017.

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 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. The service offer also includes value-added services and content, security and backup, interconnection of telephone networks, and submarine connections.

Mobile telephone services (prepaid and postpaid voice and data), fixed telephone services (includes 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].

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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. CNFL has issued debt securities, expressed in local currency, and is therefore 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].

- 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, information services, data center, 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 any officers or employees because Grupo ICE provides its accounting and administrative services.

- Cable Visión de Costa Rica, S.A.

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

- Gestión de Cobro Grupo ICE, S.A.

Gestión de 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 ICE and its entities administrative collection and legal collection management services in connection with balances receivable from commercial activities.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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.

**Note 2. Basis of accounting**

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles included in ICE's *Accounting Policy Manual* and accounting criteria issued, accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica, lead agency of the National Accounting Subsystem. The most significant accounting policies are detailed in note 7.

The consolidated financial statements and notes thereto were authorized for issue by ICE's management on May 28, 2018.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 3. Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis at each reporting date:

<b>Items</b>	<b>Measurement basis</b>
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets	Fair value
Inventories (mobile terminals)	Net realizable value
Financial instrument liabilities	Amortized cost

**Note 4. Functional and presentation currency**

These consolidated financial statements and notes thereto are expressed in Costa Rican colones (¢), which is the monetary unit of the Republic of Costa Rica and 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 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. The effect of changes in estimates is made conformity with note 7(b)(iii).

(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 a significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 8(iii) – Cost of loans
- Note 30 – Lease classification
- Note 42 – Financial risk management.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities for the year ending December 31, 2018 is included in the following notes:

- Note 14 – Allowance for obsolete inventory
- Notes 11 and 17 – Allowance for doubtful accounts
- Note 21 – Measurement of defined benefit obligations: key actuarial assumptions
- Note 43 – 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 ICE's accounting policies and disclosures require the measurement of fair values, both for financial and non-financial assets and liabilities.

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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- 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 data).

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.

Note 42 Financial risk management includes further information about assumptions made when measuring fair values.

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

**Note 6. Changes in policies**

Through Decree No. 35616-H dated December 2, 2009, the Ministry of Finance established that public entities must adopt *International Financial Reporting Standards* (IFRSs) starting January 1, 2014. Subsequently, through Decree No. 39665-H dated March 8, 2016, the Ministry of Finance established that institutions with no accounting procedures based on IFRSs should take the corresponding steps to prepare, approve, and adjust their IT systems to meet the conditions to apply IFRSs starting January 1, 2017. Notwithstanding the foregoing, on August 3, 2016, through document DM-1559-2016, the Ministry of Finance informed ICE of the issue of a guideline that authorizing the General Directorate of National Accounting to establish guidelines for entities that have not completed the adoption of the new accounting treatments. To do so, such entities must commit to implementing action plans, with terms not extending beyond 2022.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Additionally, through document DCN-1609-2016 dated November 15, 2016, the General Directorate of National Accounting of the Ministry of Finance authorized ICE to issue its first financial statements in accordance with IFRSs in the year ending December 31, 2023.

As a result, starting 2016, ICE began to gradually adopt IFRSs, by incorporating in its accounting policies the changes required to gradually adjust those policies to the technical requirements of those accounting standards (see note 39).

Such adoption is documented through the issue of accounting criteria that include technical requirements indicated in IFRSs that are being incorporated into ICE's accounting policies, with the stewardship and binding criteria of the Accounting Budget Division, with the approval of Corporate Services Management, and in accordance with the action plan accepted by the General Directorate of National Accounting of the Ministry of Finance (see note 7). In this gradual adoption process, ICE considers the study performed by an external advisor, which determined the gaps between the accounting basis currently used by ICE and IFRSs in effect as of 2015. Accordingly, as of the date of these financial statements, the IFRSs that have been considered in this implementation process are the following:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Reference standard	Name of standard	Starting date of implementation
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	2016
IAS 16	Property, Plant and Equipment	2016
IAS 19	Employee Benefits	2016
IAS 24	Related Party Disclosures	2016
IAS 36	Impairment of Assets	2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	2016
IAS 39	Financial Instruments: Recognition and Measurement	2016
IFRS 8	Operating Segments	2016
IAS 1	Presentation of Financial Statements	2017
IAS 2	Inventories	2017
IAS 7	Statement of Cash Flows	2017
IAS 10	Events after the Reporting Period	2017
IAS 18	Revenue	2017
IAS 23	Borrowing Costs	2017
IAS 28	Investments in Associates and Joint Ventures (except trusts)	2017
IAS 38	Intangible Assets	2017
IFRS 3	Business Combinations	2017
IFRS 7	Financial Instruments: Disclosures	2017
IFRS 11	Joint Arrangements (except trusts)	2017
IFRS 13	Fair Value Measurement	2017

The main purpose of this gradual implementation is to adjust the accounting process for full adoption of IFRSs, scheduled for 2023. Accordingly, it must be interpreted that the aforementioned accounting standards have been used for the gradual change of the accounting process of assets, liabilities, or transactions associated with those accounting standards, but it is not a full adoption of each of the standards, due to the direct or indirect relationship with other IFRSs and with the standards yet to be considered in the gradual adoption process, as well as due to the fact that in some cases their implementation does not cover all transactions, assets, or liabilities to which the standard applies.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 7. Summary of significant accounting policies**

The accounting policies set out below have been applied to the periods presented in these consolidated financial statements. As indicated in note 6 Changes in policies, changes were made to some accounting policies during 2017, retrospectively recording the effects of those changes as appropriate (see note 39). Changes were also made to the classification of assets, liabilities, and income and expense items, which entailed changes and reclassifications in the presentation of the financial statements for 2017 and 2016, as indicated in note 40.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

*(In millions of colones)*

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(iv) Restricted funds	44
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(vii) Other assets	46
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<b>(f) Equity policies</b>	<b>47</b>
(i) Other reserves	47
(ii) Restricted retained earnings	48
(iii) Actuarial gains (losses)	48
(iv) Gain (loss) on valuation of financial instruments	48
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<b>(g) Non-current liability policies</b>	<b>50</b>
(i) Securities payable	50
(ii) Loans payable	50
(iii) Finance lease obligations	51
(iv) Employee benefits	52
(v) Non-current accounts payable	55
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(i) Securities payable	58
(ii) Loans payable	59
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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- (a) Consolidation policies
- (i) Business combinations

Grupo ICE recognizes a business combination when the acquirer (Grupo ICE or another entity of Grupo ICE) obtains control of one or more existing businesses.

Grupo ICE accounts for each business combination using the acquisition method, which requires:

- a. identifying the acquirer
- b. determining the acquisition date
- c. recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquire; and
- d. recognizing and measuring goodwill or gain from a bargain purchase.

Grupo ICE recognizes as the acquisition date the date on which Grupo ICE obtains control of the acquiree, which is generally the date on which the acquirer legally transfers the consideration, acquires the assets, and assumes the liabilities of the acquiree. However, the acquirer might obtain control on a date earlier or later than the closing date. For example, the acquisition date will precede the closing date when an agreement provides that the acquirer obtains control of the acquiree on a date before the closing date. Therefore, the acquirer shall consider all relevant facts and circumstances to identify the acquisition date.

As of the acquisition date, Grupo ICE (acquirer) shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. As acquirer, Grupo ICE must measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values and recognize goodwill as of the acquisition date, which represents the difference between the acquisition cost and the fair value of the acquired entity. Goodwill is recognized as an intangible asset in Grupo ICE's consolidated financial statements; it has an indefinite life and is subject to impairment testing, according to best practices.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer.

If a contingent consideration exists, arising from events that are uncertain as of the date of negotiation, Grupo ICE must recognize the acquisition-date fair value of the contingent consideration as part of the consideration transferred in exchange for the acquiree and which shall be classified as a financial liability or as equity based on the definitions of an equity instrument and a financial liability included in the accounting standard on the presentation of financial instruments.

(ii) Subsidiaries

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

Subsidiarias	País	Porcentaje de participación	
		al 31 de diciembre de	al 31 de diciembre
		2017	2016
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%	100%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100%	100%
Cable Visión de Costa Rica S.A. (CVCRSA)	Costa Rica	100%	100%
Gestión de Cobro Grupo ICE S.A.	Costa Rica	100%	-

These 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 ICE's accounting policies, including the application of the corresponding accounting adjustments.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(iii) Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing these consolidated financial statements.

(iv) Investments in associates and joint ventures

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.

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).

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 period. 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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) General accounting policies

(i) Basic principles

Grupo ICE books transactions on the accrual basis of accounting, which means that the effects of transactions and other events are recognized when they occur and not when cash or other cash equivalent is received or paid, except for the acquisition of services (service orders), which are booked on a cash basis.

All transactions and events must be recorded in the accounting books in a timely manner and in chronological order in the financial statements for the corresponding periods.

Grupo ICE's accounting period runs from January 1 to December 31 of each year.

Items are recognized in the consolidated financial statements if they meet the following criteria:

- It is probable that any economic benefit associated with the transaction will flow to or from Grupo ICE.
- The cost or value of the transaction can be reliably measured.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(ii) Foreign currency transactions

During the period, all of Grupo ICE's transactions in foreign currencies are translated into the functional currency of ICE at the sell rate for the Costa Rican colón with respect to the US dollar in effect as of the immediately preceding year-end, set by Banco Central de Costa Rica (BCCR) [Central Bank of Costa Rica] for operations with the non-banking public sector. As of the current year-end, existing balances derived from foreign currency transactions are translated into colones using the sell rate set by BCCR for operations with the non-banking public sector corresponding to the last business day of December of the current year. Foreign exchange differences resulting from the application of this procedure are recognized in profit or loss for the year.

(iii) Changes in accounting policies, accounting estimates and prior-period errors

Grupo ICE will change the policy only if:

- a) such a change is required by a best practice
- b) the change in policy means that the financial statements will provide more reliable and relevant information on the effects of transactions, other events or conditions that affect the financial position, financial returns, or cash flows of the entity.

When a change is applied retrospectively, the opening balances of equity accounts for the oldest period presented are adjusted, disclosing information about the comparative amounts for each prior period presented. A change in an accounting policy will be applied retrospectively to prior periods and the comparative information will be adjusted unless it is impracticable to determine the effects of the change in prior periods or the cumulative effect.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Changes in estimates result from changes in the events or circumstances on which the estimate is based, such as new information obtained or more experience, thus requiring a review of the estimate.

The effect of a change in estimates will be recognized in profit or loss for the period in which the change occurs and to any future periods affected.

Errors determined in the current period corresponding to that same period will be corrected before the financial statements are authorized for issue. Significant errors originating from prior periods are corrected retrospectively in the financial statements immediately subsequent to their detection, restating comparative information for the prior period or periods in which the error originated as well as the opening balances of assets, liabilities, and equity for the oldest comparative period presented, in the event that the error originated from a prior period. When it is impracticable to determine the cumulative effect of a prior-period error, the comparative information will be restated by correcting the error prospectively from the date on which it is possible to do so.

(iv) Subsequent events

Grupo ICE recognizes or discloses events, favorable or unfavorable, subsequent to the reporting period, as events occurring between the end of the reporting period and the date on which the financial statements are authorized for issue. The two types of events subsequent to the reporting period are as follows:

- events that provide evidence of the conditions at the end of the reporting period (events occurring after the reporting period that entail an adjustment), and
- events that describe the conditions that occurred after the end of the reporting period (events occurring after the reporting period that do not entail an adjustment).

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Accordingly, for subsequent events related to the compliance of covenants and restructuring of debt, Grupo ICE establishes that when non-compliance with a covenant (financial or non-financial) occurs and a waiver has not been obtained before the closing or the waiver is not for at least the following 12 months, the total balance of the corresponding debt must be classified as short term. If Grupo ICE obtains a waiver on that non-compliance on a date subsequent to the closing date, it must be disclosed since it is considered to be significant to the financial statements as a whole. However, this event subsequent to the closing date does not exempt Grupo ICE from classifying the total debt as short-term debt (payable).

When Grupo ICE expects and is able, at its own discretion, to renew or refinance an obligation for at least 12 months after the reporting period under an existing loan facility, it shall continue to classify the obligation as non-current, even if the term could be shorter. When the renewal or refinancing of the obligation is not at the discretion of Grupo ICE (e.g. no financing agreement is in place), the obligation will be classified as a current obligation.

(c) Financial instruments

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

Grupo ICE classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

Grupo ICE classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

Grupo ICE derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by Grupo ICE is recognized as a separate asset or liability.

Grupo ICE derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, Grupo ICE has a legally enforceable right to offset the amounts and 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)(ii) Non-derivative financial assets and financial liabilities – Measurement

Non-derivative financial assets are measured as follows:

Financial assets at fair value through profit or loss	A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.
Held-to-maturity financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.
Notes and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.
Available-for-sale financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and accumulated in equity. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Grupo ICE classifies a financial liability as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognized in profit or loss.

Grupo ICE initially measures other non-derivative financial liabilities at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Grupo ICE recognizes in profit or loss the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed).

Interest, dividends, losses, and gains relating to a financial instrument or a component that is a financial liability shall be recognized in profit or loss.

(iii) Derivative financial instruments - Hedge accounting

Grupo ICE holds derivative financial instruments to hedge its interest rate and currency risk exposures. Hedge relationships used by Grupo ICE are fair value hedges and cash flow hedges.

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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)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 the consolidated statement of income and expenses.
- 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 period. 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

Cash flow hedges:

When a cash flow hedge meets the established conditions during the period, it will be booked, so that the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, with the offsetting item in the liabilities subaccount; the ineffective portion of changes in the fair value of the derivative is recognized in the consolidated statement of income and expenses and other comprehensive income.

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. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statement of income and expenses and other comprehensive income.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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. 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. 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 profit or loss 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 income and expenses due to disposal of the instrument.

(d) Non-current asset policies(i) Property, plant and equipmentOperating assetsRecognition and measurement

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". Assets used in administrative and operating activities and expected to be used for more than one accounting period are booked as "Other operating assets".

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Starting in 2016, operating assets and other operating assets are recorded at adjusted cost, which is the substitute for the historical cost plus the revaluation adjustment applied until that moment based on the use of indices. Accordingly, the valuation of operating assets and other operating assets subject to rate regulation is denominated adjusted cost, which comprise the historical cost plus the revaluation adjustment. Furthermore, the accumulated depreciation on cost was added to the accumulated depreciation identified in the revaluation.

Subsequent to the determination of that adjusted cost, the new operating assets are carried at cost of purchase or construction cost, plus any other directly related costs that are necessary to bring the assets to the location and condition that enable their operation.

For ICE, operating assets are detailed in the significant components subledger. The booking of components is made according to the asset category level assigned, based on the characteristics of those assets regarding mobility, volume, and individual value. Thus, each asset component is booked separately, according to its nature, and depreciated separately based on the shortest of the useful life of the equipment and the useful life of the main asset.

Operating assets transferred to ICE once the BOT (Build, Operate, Transfer) agreements are completed are recorded at a symbolic value of ¢1.00 since the costs of such assets were recognized and depreciated by the third party over the term of the BOT agreement and, therefore, charged to ICE through the energy purchase/sale transactions.

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.

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, retrofits, reconstruction, and price adjustments are considered costs subsequent to the acquisition or construction of an asset; therefore, these are capitalizable, provided that they are not classified as maintenance costs.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)Operating assets under finance lease agreementsRecognition and measurement

Tangible and intangible assets classified as finance leases in the terms of the lease agreement are recorded by Grupo ICE as assets under finance lease agreements.

Operating assets under finance lease agreements are recorded at cost of purchase or construction cost, plus any other directly related costs that are necessary to bring the asset to the location and condition that enable their operation.

Operating assets under finance lease agreements received early by Grupo ICE are booked as such if and when the risks and rewards of those assets have been transferred to Grupo ICE, it can use them from the date of receipt, and it is responsible for their custody and use.

The cost of operating assets under finance lease agreements received early is booked according to the calculation of the present value of each disbursement (delivery or receipt of the asset) at the time of receipt and when ready for operation, given that those assets are capitalized when they are in the location and condition necessary for operation as intended by management, generating the corresponding depreciation expense as of that moment.

The calculation of the present value is made using the implicit financial rate of the lease, if and when its determination is practicable; if not available, the interest rate determined by Grupo ICE for similar situations shall be used.

The implicit financial burden determined is charged monthly during the early term to the consolidated statement of income and expenses, with an offsetting entry corresponding to the finance lease obligation.

If the financial burden determined is immaterial, due to the cost-benefit, it is charged in the value of the asset and liability at the time of early receipt, situation that shall be determined based on the analysis of each specific case, providing a justification for the decision made.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Items 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, and 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 useful lives for each type of operating asset and the corresponding significant components must be defined by the technical areas of the segments.

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
- 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.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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 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.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

Assets under finance leases are depreciated over the useful life defined by Grupo ICE for the assets that it owns when the acquisition of the asset at maturity of the lease agreement is probable beyond reasonable doubt.

Leasehold improvements for which Grupo ICE will retain ownership upon maturity of the lease agreement shall be depreciated over the useful life of the assets owned by Grupo ICE.

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.

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 fully identified with the acquisition and construction of assets are capitalized. ICE begins capitalizing borrowing costs when the asset is in the design and planning stage, during the construction of the works or under construction agreements, and may continue to do so until the asset is ready for its intended use. 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 borrowings obtained 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, will be accrued as "Production management costs for construction work in progress". These costs are allocated on a monthly basis to projects in the design and planning stage or the construction stage, as appropriate.

Where appropriate, costs accrued in the design and planning stage shall be transferred to "Construction work in progress" after the work order has been issued.

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.

Design and planning of the execution

Costs incurred prior to the construction of projects or works that are part of the investment phase are booked under "Design and planning of the execution". These costs include the basic and final design of the works, as well as the corresponding technical, economic, and financial studies.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The costs of design and planning of the execution are booked at execution cost, plus any other cost related to their development, provided they can be identified and reliably measured.

Mitigation and social compensation costs are booked as part of the design and planning of the execution and are subsequently capitalized to "Construction work in progress", provided that the following conditions are met:

- These costs are considered to be necessary for the development of Grupo ICE's projects.
- These costs are a requirement that Grupo ICE must comply with in order to obtain social and environmental feasibility permits for its projects. If such a requirement is not met, project development start-up may be affected.
- These costs are an integral part of the Environmental Management Plan; accordingly, they must be duly planned and included therein as well as controlled as part of Grupo ICE's "Baseline".
- These costs can be reliably identified and measured.

Balances accrued in "Design and planning of the execution" for construction works owned by Grupo ICE are cleared and transferred to "Construction work in progress" account, or they are expensed in the period if the project is not executed, or the project is not expected to generate any future economic benefits.

"Design and planning of the execution" is presented in the consolidated statement of financial position under the "Property, plant and equipment" account.

Materials in transit for investment

The cost of materials and equipment requested from suppliers through a purchase order, plus incidental costs necessary for their purchase, is booked as "Materials in transit for investment".

Materials in transit are fully or partially settled when the materials enter the entity's warehouses or are delivered to third parties.

"Materials in transit for investment" are presented in the consolidated statement of financial position under the "Property, plant and equipment" account.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The cost of inventory in stock that will be used in the construction of productive assets is booked as "Inventory for investment". The cost of inventory warehoused and held for use in activities inherent to the operation and maintenance of productive assets and used for administrative or management purposes 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 included under the "Property, plant and equipment" account.

The methods used to value inventory for investment are specific lot identification and moving average cost. Specific lot identification allows associating each item with the specific originating purchase. The moving average cost method is applicable to materials that are too large to be tracked by lot and to materials that given their volume and storage method cannot be matched with individual purchase entries.

Inventory, equipment, or spare parts transferred to Grupo ICE once BOT agreements or operating lease agreements are completed will be recorded at a symbolic value of ¢1.00 since the costs of such assets were included in the amount for the purchase of electricity or lease payments and recognized by Grupo ICE over the term of the agreement in profit or loss for the period. After 2016 and before 2022, they will be recognized at fair value.

(ii) Intangible assetsRecognition 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".

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

According to this policy, intangible assets are as follows:

- licenses and software
- 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 accumulated impairment losses.

The costs of stations built by Grupo ICE in order to have the technical and infrastructure conditions to interconnect submarine cables are included as part of the rights of use of submarine cable. Those costs are amortized over the term of the use agreement from the starting date of operation of such infrastructure.

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.

Rights of way or easements on land and rights of use of submarine cable are not revalued.

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

- research phase
- development phase.

Intangible assets arising from the research phase are not recognized. Expenditure on research activities is recognized in profit or loss when it is incurred.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Intangible assets arising from the development phase are recognized if the following requirements are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- the intention to complete the intangible asset for use or sale
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits. Grupo ICE must demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset
- availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset includes all directly attributable costs necessary to create, produce, and prepare the asset for operation as intended by management.

Subsequent expenditure

Intangible assets include additions or improvements made to operating assets if they qualify as such.

Costs subsequent to acquisition of intangible assets are only booked as intangible assets if they meet the aforementioned recognition requirements; otherwise, they are recognized in profit or loss when incurred.

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 useful life 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 their maturity terms.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

The amortizable amount of intangible assets comprises the cost of purchase or construction cost plus any incidental costs.

Rights of way and easements on land acquired for an indefinite term (i.e. when a defined term in which the asset will continue to generate benefits to Grupo ICE is not distinguishable) are not amortized.

The rights of way or easement on land agreements that are subscribed 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.

(iii) Impairment of non-financial assets

Grupo ICE reviews at each reporting date the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

Grupo ICE records impairment of a cash generating unit (CGU) when the carrying amount exceeds its recoverable amount. In that case, Grupo ICE adjusts the valuation of the asset or assets that are part of the CGU up to the recoverable amount (without reducing the carrying amount below the higher of the value in use or zero), booking an impairment loss.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

For impairment testing, ICE grouped its assets into two separate CGUs, considering independent cash inflows from each of the CGUs and the manner in which management monitors the operation and makes decisions on the continuity or final disposal of the assets and operations of those CGUs. These CGUs are related to the Electricity Segment and the Telecom Segment. This policy contemplates the review of the allocation of assets into those two CGUs when there are events and circumstances that may affect the definition of these CGUs.

Grupo ICE uses the value in use to determine the recoverable amount of the CGUs.

Grupo ICE will perform annual testing for impairment of the value of intangible assets with indefinite useful lives regardless of the existence of indications of impairment. However, the most recent calculations (performed in the prior period) of the recoverable amounts of the defined CGUs can be used to verify impairment of the value of the intangible asset in the current period.

Grupo ICE will identify all common or corporate assets related to the CGU being tested for impairment and will take into account the following considerations:

- The impairment loss to reduce the carrying amount of the assets of the CGU (or group of CGUs) will be distributed as follows:
  - (i) First, the carrying amount of any goodwill allocated to the CGU (or group of CGUs) will be reduced
  - (ii) To the other assets of the CGU (or group of CGUs), beginning with the operating assets of each CGU and ending with the common assets (corporate assets).

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- The impairment loss will be allocated among the assets of the CGU according to the pattern that best fits the economic reality of the assets. If a specific pattern is not identified, the impairment loss will be allocated on a pro rata basis.
- Grupo ICE will recognize in profit or loss the subsequent reversal of an impairment loss. The carrying amount of the asset (or CGU) increased, after the reversal of the allowance, shall not exceed the carrying amount that would have been determined if no impairment loss had been recognized on the asset (or CGU) in prior periods.

Grupo ICE also recognizes in profit or loss the physical deterioration of its assets, caused by unforeseeable circumstances or other physical damage of the assets.

(iv) Equity investments

The cost of financial instruments acquired to obtain ownership interest or control in related parties, so as to develop electricity and telecommunications activities, is booked as "Equity investments".

Investments in entities, acquired to obtain ownership interest, other than those which due to their control are classified as subsidiaries, associates, or joint ventures, are booked at cost.

Dividends declared by subsidiaries are recognized in profit or loss in Grupo ICE's financial statements once the right to receive such dividends is established.

Investment in reforestation agreements

Amounts paid for acquisition of rights as co-owners of reforestation plantations are booked as "Investments in reforestation agreements" by the subsidiary RACSA. Disbursements incurred in relation to forest developments are capitalized as part of the investment. The value of this investment is amortized as development revenues are realized. Signing of these agreements entitles RACSA to receive a share of the net revenue generated through the future use of the agreements.

RACSA also books a "Forest development reserve" plus all costs incurred in its development. The purpose of the reserve is to cover any potential losses associated with future use of investments in forestry agreements.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(v) Notes and other accounts receivableLong-term notes receivable

Credits granted with terms of more than one accounting period are booked as "Long-term notes receivable".

"Long-term notes receivable" are booked at the value of the note receivable which is the amount due from the debtor at maturity under the agreed terms. That value is maintained for the entire term and until the long-term notes receivable are recovered.

"Long-term notes receivable" are settled when the rights are extinguished or transferred.

Grupo ICE reclassifies the portion of notes receivable expected to be recovered during the following year as a current asset.

Service agreements

Service agreements are presented in the consolidated statement of financial position under "Notes and other accounts receivable".

The cost of services for construction works and technical services provided by Grupo ICE internally between segments or to third parties is booked as "Service agreements".

"Service agreements" are booked at execution cost, plus any other costs related to development, provided they can be identified and reliably measured.

Costs accrued and incurred during the design and planning of the execution are included in the value of service agreements, if so stipulated in the agreement.

Mitigation and social compensation costs are booked under "Service agreements" when they are identified and reliably measured, are an integral part of the Environmental Management Plan, are duly planned and included therein, and are controlled as part of Grupo ICE's "Baseline", provided they are also an integral part of the cost of the agreement and are recoverable for Grupo ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Service agreements with third parties are settled based on percentage of completion of the works, partial deliveries, or full payment upon delivery of the good or service, as stipulated in the agreement.

Whenever it is likely that the total costs of an agreement at the final settlement date will exceed the amount stipulated, the resulting difference is charged to expense for the period.

(vi) Investments in financial instruments

Financial instruments (long-term certificates of deposit, bonds, and foreign debt bonds, among others) with terms of more than one accounting period are booked as "Investments in long-term financial instruments".

"Investments in long-term financial instruments" are booked at fair value, which is the amount due from the debtor at maturity under the agreed terms.

Premiums or discounts and transaction costs are booked as part of financial assets and liabilities, which are subsequently recognized in the consolidated statement of income and expenses, according to the effective interest method, during the time that economic benefits are expected to be received therefrom or during the term of the liabilities.

"Investments in long-term financial instruments" are settled when the rights are extinguished.

(vii) Guarantee and Savings Fund (restricted fund)

Contributions made to the Guarantee and Savings Fund and the Supplemental Pension System, plus returns derived therefrom, less amounts transferred to employees and fund management losses, are booked as "Guarantee and Savings Fund (restricted fund)".

The Supplemental Pension System was created by ICE for the well-being of the beneficiaries, granting an additional pension to any public sector pension system. ICE's monthly contribution to that pension system is an amount equivalent to 4.5% of the employees' monthly gross salaries (see note 13).

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The Guarantee and Savings Fund was created with the goal of granting mortgage and personal loans to employees for housing. ICE's monthly contribution to this fund is an amount equivalent to 5% of the employees' monthly gross salaries (6% prior to July 1, 2016) (see note 13).

Transfers to ICE's Guarantee and Savings Fund

Monthly contributions provided for and transferred to the Guarantee and Savings Fund are booked as "Transfers to ICE's Guarantee and Savings Fund" to pay severance benefits related to permanent employees. Such transfers correspond to the amount calculated as 3.5% of the employees' monthly gross salaries.

The balance of transfers made to the Guarantee and Savings Fund decreases when severance benefit payments are made to ICE's former employees.

(e) Current assets policies(i) InventoriesMaterials in transit for operations

The cost of the materials and equipment for operations, requested from suppliers through purchase orders, is booked as "Materials in transit for operations".

"Materials in transit for operations" requested from suppliers are booked for the amount shown on the purchase order, plus incidental costs necessary for their acquisition.

Finance costs directly attributable to the acquisition of assets are included as costs of purchase during the period from the issue of the purchase order to the date of receipt of the assets.

"Materials in transit for operations" are fully or partially liquidated when the materials enter the entity's warehouses or are delivered to third parties.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The cost of the inventory warehoused and held for use in activities inherent in the operation and maintenance of productive assets and used for administrative or management purposes, is booked as "Operating inventory".

The cost of inventory for sale that must be tracked while the goods are out of the warehouse is booked as "Materials and equipment held in custody".

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.

The methods used for the valuation of operating inventories are specific lot identification and moving average cost. Specific lot identification allows matching each item with the specific originating purchase. The moving average cost method is applicable to materials that are too large to be tracked by lot, and to materials that given their volume and storage method cannot be matched with individual purchase entries.

Inventory, equipment, or spare parts transferred to ICE once BOT agreements or lease agreements are completed will be recorded at a symbolic value of ₡1.00 since the costs of such assets were incorporated in the amount for the purchase of electricity or lease payments and were recognized by ICE during the term of the agreement in profit or loss for the period.

Available-for-sale inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price of an asset in the ordinary course of business, less the estimated costs necessary to make the sale. 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 inventories down 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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 for inventory – operation" is periodically reviewed to ensure coverage of potential obsolescence or impairment.

Inventories decrease when they are used in construction or when they are disposed of due to obsolescence, impairment or warehouse shortages.

(ii) Notes and other accounts receivable

Notes receivable

Loans granted to third parties with a term of one year or less are booked as "Notes receivable". "Notes receivable" are booked at fair value, which is the amount due from the debtor to Grupo ICE at maturity and under the agreed terms.

"Notes receivable" must be settled either when the rights are extinguished, when they are classified as doubtful accounts, or when the asset is transferred.

Other 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 "Other non-trade receivables".

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Payments made to suppliers for materials or goods, for which the risks and rewards have not been transferred to Grupo ICE and, therefore, have not been recognized as assets, are recorded as accounts receivable for advances to suppliers.

Reciprocal accounts receivable and payable between Grupo ICE and a third party must be booked as independent transactions, but they are offset if it is agreed by the parties, if there is a legal right to offset, and if there is an intent to either settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

Allowance for doubtful accounts – non-trade receivables

A fixed amount, in the case of other non-trade receivables, to cover the potential uncollectibility is booked as “allowance for doubtful accounts”.

The balance of the “allowance for doubtful accounts” is reviewed periodically based on aging to ensure coverage of accounts that are potentially uncollectible.

(iii) Temporary investments

Temporary investments – measurement

The cost of financial instruments acquired, arising from temporary cash surplus, is booked as “Temporary investments”.

Held-to-maturity temporary investments are initially recognized at fair value plus any other directly attributable transaction cost.

Available-for-sale investments are recognized at fair value, plus any directly attributable transaction costs. Subsequently, they are measured at fair value, and changes other than impairment and foreign exchange differences are recognized in other comprehensive income and accrued in equity under “Gain (loss) on valuation of financial instruments”. When the accrued gain or loss is derecognized in equity, it is transferred to profit or loss.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“Temporary investments” are classified as available-for-sale investments or held-to-maturity investments, depending on Grupo ICE’s intent and financial ability to hold to maturity.

Transaction costs are presented in the consolidated statement of financial position and notes thereto as part of the net value of account that originated them according to the financial instrument to which they relate (investments, securities, and loans payable).

“Temporary investments” are settled when the funds are transferred or used.

Valuation of investments

The valuation of investments designated at initial recognition as available for sale is made through a price vector, using as reference the vector provided by Proveedor Integral de Precios Centroamérica (PIPICA) [Central American Comprehensive Pricing Provider]. This method is used to determine the market value of such investments, which is then compared to the carrying amount of the investment. The gain or loss obtained from the valuation is booked against the equity account under “Gain (loss) on valuation of financial instruments” until it is derecognized.

When the investment in available-for-sale securities is settled or derecognized, the accumulated gain or loss previously recognized in equity is included in profit or loss.

Investment valuations are booked at least once a month. Accordingly, there is a sales indicator, and fair values are established. The effect of exchange rate variations on the value of temporary investments expressed in foreign currency is booked in profit or loss.

Valuations are not be booked if investments expire, are traded, or are reclassified from available-for-sale to held-to-maturity investments.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Financial resources with limitations on their availability that are received as a guarantee for services to be rendered to Grupo ICE are recorded as “Restricted funds”.

“Restricted funds” are carried at face value and are eliminated when they are returned to the guarantors.

(v) Trade receivablesReceivables for services rendered

The right to demand payment from customers for electricity and telecom services, as well delinquent entries in administrative or legal collection, are booked as “Receivables for services rendered”.

“Receivables for services rendered” are booked for the amount payable of the document underlying the transaction, which indicates the amount payable, due date, and agreed terms, depending on the type of service.

Reciprocal accounts receivable and payable between Grupo ICE and a third party must be booked as independent transactions, but they are offset if it is agreed by the parties, if there is a legal right to offset, and if there is an intent to either settle them on a net basis or to realize the asset and settle the liability simultaneously.

“Receivables for services rendered” are settled when the right 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 doubtful accounts due to non-payment.

Allowance for doubtful accounts – trade receivables

The amount determined on a monthly basis by applying factors or percentages to the net monthly billing of “Receivables for services rendered” is booked as “Allowance for doubtful accounts”.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

An account receivable is booked as doubtful when the unpaid balance, after applying the corresponding security deposit, if any, is less than the established cap of ¢50,000 (fifty thousand colones) in the respective period, after administrative collection proceedings have been exhausted. The agency must provide evidence of the procedures performed. Balances between ¢50,000 (fifty thousand colones) and ¢100,000 (one hundred thousand colones) will be kept for two years in the accounts in legal collection subledger. Once that period has elapsed, those balances are automatically booked in the "Allowance for doubtful accounts" by the corresponding technical areas of each segment.

Amounts in excess of ¢100,000 are kept in the corresponding subledger until a request is received from the related segment to declare the amount uncollectible.

The balance of the allowance for doubtful accounts is reviewed periodically to ensure coverage of accounts that are potentially uncollectible considering balance aging and the recovery of doubtful accounts.

(vi) Prepaid expenses

"Prepaid expenses" include the following:

- The cost of expenditures for the future receipt of goods and services under agreements subscribed.
- Mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans. Such amounts are expensed based on the term of the post-paid plan or package, matching the plan's costs with the income.
- Fuel consumption to generate thermal power, when the rate adjustments approved by the regulatory authority related to such cost are applied in the same accounting period in which they are requested and are a result of mismatches in connection with the variable fuel cost (CVC) methodology. Such a cost is amortized and presented in the consolidated statement of income and expenses on a straight-line basis over the term established by the regulatory authority to recover such costs through rate adjustments. Such a term may vary in accordance with subsequent communications from the regulatory authority.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- The costs of imported electricity, when the rate adjustments approved by the regulatory authority are applied in the same accounting period in which the expense was made. The related recognition should be deferred in the term established by the regulatory authority. Such a cost is booked in the consolidated statement of income and expenses over the term established by the regulatory authority to recover such costs through rate adjustments. Such a term may vary in accordance with subsequent communications from the regulatory authority.
- Additional costs for the purchase of energy from independent power producers, when the rate adjustments approved by the regulatory authority are applied in the same accounting period in which the expense was recognized. The related recognition should be deferred over the term established by the regulator. Such a cost is amortized and presented in the consolidated statement of income and expenses over the term established by the regulator to recover such costs through rate adjustments. Such a term may vary in accordance with subsequent communications from the regulatory authority.

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

“Prepaid expenses” related to the cost of mobile terminals are expensed when the service is canceled or the plan is changed or withdrawn.

(vii) Other assets

Technical service centers - investment

Costs incurred by specialized technical units for the provision of services to units in the same segment, to other segments of ICE, and to third parties are booked as “Technical service centers - investment”.

Technical service centers book their operations at the cost incurred to provide the service.

In providing outside services, the technical service centers charge a portion or all of their costs to the accounts indicated in the open service orders, depending on the likelihood of recovery.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(viii) Cash and cash equivalents

“Cash and cash equivalents” include the following:

- i. Banks: Transactions affecting national and foreign cash deposited in the current accounts of both public and private, national or foreign financial entities and that will be used in ICE’s operations are booked as “Banks”.
- ii. Temporary investments: An investment is considered to be a cash equivalent if it is readily convertible into a determined amount of cash and is subject to an insignificant risk of changes in its value. Therefore, an investment is classified as a cash equivalent if its maturity date is three months or less from the acquisition date, provided there is no legal or constructive obligation to dispose of those resources.

(f) Equity policies(i) Other reservesLegal reserve

Pursuant to current regulations, CNFL and CVCRSA must appropriate 5% of each year’s net earnings to a legal reserve, up to 20% of outstanding share capital.

In accordance with Law No. 3293 dated June 18, 1964, RACSA books an equity reserve equivalent to 25% of pretax income.

Project development reserve

At Ordinary Shareholders Meeting No. 97 held on April 30, 2001, 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)Forest development reserve

RACSA books as “Forest development reserve” the cost of purchase of forestry projects plus all costs incurred in their development. The purpose of the reserve is to cover any potential losses associated with future use of investments in forestry agreements.

(ii) Restricted retained earnings

Based on agreements reached at General Shareholders’ Meetings, RACSA restricts earnings as appropriate and recognizes them on a historical cost basis.

(iii) Actuarial gains (losses)

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

(iv) Gain (loss) on valuation of financial instruments

This account reflects the gain (loss) on the valuation of financial instruments acquired by Grupo ICE, both derivative financial instruments to hedge cash flows and available-for-sale investments.

Such valuations are recognized in equity, depending on the conditions established for each financial instrument.

For hedges, the value of positive or negative discounted cash flows of the financial instrument determined as effective hedges is recorded as “Gain (loss) of valuation of financial instruments”.

When an investment is classified as available for sale, it is recorded as “Gain (loss) on valuation of financial instruments”.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The valuation of the hedging instrument is closely related to the liability, or to the asset, and its valuation depends on its existence to cover or disclose the risk.

The “Gain (loss) on valuation of financial instruments” is liquidated when the instrument matures, is traded or sold.

In 2016, as a result of the adoption of the adjusted cost to disclose the value of operating assets, Grupo ICE reversed the balance of the revaluation reserve related to its productive assets, transferring that balance to the development reserve, as Grupo ICE considers it realized.

(v) Retained earnings

Profit or loss of the subsidiaries of ICE at each accounting year-end is booked as “Retained earnings”. Retained earnings are adjusted for the effects of changes in accounting policies, corrections of prior period misstatements, and equity adjustments.

(vi) Development reserve

(Deficit) surplus, 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, corrections of prior period errors, and equity adjustments.

In 2016, as a result of the adoption of the adjusted cost to disclose the value of operating assets, Grupo ICE reversed the balance of the revaluation reserve related to its productive assets, transferring that balance to the development reserve, as Grupo ICE considers it realized.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The result of offsetting the “Income” and “Expenses” nominal accounts at year-end is booked under “Surplus (deficit)”.

Grupo ICE’s “Surplus (deficit)” is liquidated at year-end by transferring its balance to the “Development reserve” equity account.

(g) Non-current liability policies(i) Securities payable

Obligations with third parties arising from the issue of debt securities (bonds) that represent payment commitments for terms of more than one year are booked under “Securities payable”. These obligations are recognized at face value based on the contracted debt.

Premiums or discounts and transaction costs are booked as part of financial assets and liabilities in the consolidated statement of income and expenses 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 debt securities (bonds) is recognized when Grupo ICE amortizes or settles any amount owed.

Grupo ICE books the portion of long-term securities payable expected to be settled within one year as “Short-term securities payable”.

(ii) Loans payable

Obligations with entities, financial institutions, suppliers, or lessors for more than one accounting period are recognized as “Non-current loans payable”.

Non-current loans payable are booked and measured at amortized cost, considering transaction costs, which are amortized using the effective interest method.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Premiums or discounts and transaction costs are booked as part of financial assets and liabilities in the consolidated statement of income and expenses 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.

Grupo ICE records as "Short-term loans payable" the portion of long-term loans payable expected to be settled in one year or less and long-term debts enforceable in the short term due to infraction or non-compliance with covenants in accordance with the accounting policies for presentation of financial statements and events occurring after the reporting period.

"Long-term loans payable" are recognized as the financial entity or supplier transfers the cash flows or assets to ICE, or to suppliers on behalf of ICE, or as interest is capitalized over the loan disbursement period, as agreed.

(iii) Finance lease obligations

Obligations with entities, financial institutions, suppliers, lessors, or other, for more than one accounting period, related to the receipt of assets under finance leases, are recognized as "Finance lease obligations".

"Finance lease obligations" are booked and measured at amortized cost, considering transaction costs, which are amortized using the effective interest method.

Obligations with different entities arising from the ordinary course of business with settlement dates of more than one year are recognized as "Long-term finance lease obligations". The portion to be settled in one year or less is recognized in the short-term section.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“Finance lease obligations” are booked at the face value of the agreements or, in the event of early receipt of the asset, at the present value of each disbursement (receipt of the asset), until reaching the face value during the early term and until the start of the lease, which is established in the agreement.

A partial or full decrease in “Finance lease obligations” is recognized when the obligations are transferred to the short-term portion and when Grupo ICE amortizes or settles any amount owed.

(iv) Employee benefits

Post-employment benefits – Severance benefits

*For permanent employees:*

Chapter XXXVII of the *Personnel Statute* establishes the provisions on the payment of severance benefits due to the termination of the agreements subscribed with personnel (as long as there is employer responsibility) (severance benefits), based on seniority and the aforementioned regulations.

The provisions set forth in the *Personnel Statute* 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- 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). 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.
- c. The payment of severance benefits is calculated 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 ICE is continuous (in working days) in respect of the date of incorporation into the public sector
  - no dismissal occurred from the public institution where the employee worked before joining ICE
  - no severance benefits were paid by the public institution where the employee worked.
- d. The sum of the years recognized before and after the enforcement of the *Employee Protection Law* cannot exceed 24-year severance benefits corresponding to 40 years of continuous service at ICE.

Employees hired for a defined term and for completed works (interim employee) that exceed one year of continuous service at ICE will have all the economic employment rights of those employees hired for an undefined term, pursuant to Chapter III of the *Personnel Statute*.

To pay this benefit, an amount equivalent to 3.5% of the employees' monthly gross salary and back-to-school bonus is transferred monthly to a severance benefit fund, which is managed by the Guarantee and Savings Fund. With respect to the returns derived from the management of the aforementioned contributed amount, an equivalent of 2.5% is transferred to the supplemental pension system, and an equivalent of 1% is capitalized in the severance benefits fund for strengthening purposes. To quantify the severance benefits obligation, an actuarial study is made by an independent actuary on a year basis starting in 2016, using the projected unit credit method (see note 21).

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)*For project employees:*

Project employees are hired to execute projects developed by 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 by Grupo ICE, which in turn gives rise to the recording of an expense.

CVCRSA pays severance benefits to its employees pursuant to article 29 of the Labor Code. For such purposes, CVCRSA books a monthly provision of 5.33% of salaries. Of that amount, 3% is transferred to the Employee Association of Cable Visión (ASEVISION) for the benefit of employees and deducted from severance benefits when employees are dismissed without just cause. Any additional amount in respect of the final severance benefits pay is recognized as an expense for the period. On December 5, 2013, CVCRSA was acquired and its employees received full severance pay, which implied no additional labor obligations for Grupo ICE; accordingly, under no circumstances may Grupo ICE be considered as a "substitute employer".

*Benefit – Supplemental Pension Fund*

To pay this benefit, associated only with ICE's employees, an amount equivalent to 3.5% of the employees' monthly gross salary and back-to-school bonus is transferred monthly to a severance benefit fund, which is managed by the Guarantee and Savings Fund. With respect to the returns derived from the management of the aforementioned contributed amount, an equivalent of 2.5% is transferred to the supplemental pension system, and an equivalent of 1% is capitalized in the severance benefits fund for strengthening purposes. To quantify the severance benefits obligation, an actuarial study is made by an independent actuary on a year basis starting in 2016, using the projected unit credit method (see note 21).

*Benefit – Guarantee and Savings Fund*

This benefit, associated only with ICE's employees, was created to provide support to the employees for housing and other needs. The benefit is financed through monthly contributions made by ICE for an amount equivalent to 5% of the employees' gross salary (6% until June 2016) and through employees' contributions equivalent to 5% of their gross salary. Contributions made by ICE are accounted for as an expense.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The funds destined toward that benefit are transferred to a Guarantee and Savings Fund, managed by the independent vehicle known as Guarantee and Savings Fund (see note 13). Accordingly, the main activity of that vehicle is granting mortgage and fiduciary loans, among other services, to address those needs and to generate earnings on the funds received. Returns from the management of the funds are distributed at the end of the period, increasing employer and employee contribution amounts at the proportion determined by the Managing Board of such fund. After 20 years of service for ICE, employees that resign with no employer's liability have the right to withdraw the balance of the individual savings account and ICE's contributions (see note 7 (d) (vii)).

As a defined contribution plan, ICE's implicit obligation is limited only to the contributions that, in agreement with the employees, ICE has voluntarily agreed to make to the fund that manages that system, so that the amount of benefits to be received by the employee is determined by the amount of the contributions paid by ICE, together with the returns from the investments arising from the contributions. As a result, the actuarial risk and investment risk are assumed by the employee.

(v) Non-current accounts payable

Obligations with different entities arising from the ordinary course of business with settlement dates of more than one year are booked under "Non-current accounts payable". The portion to be settled in one year or less is booked in the short-term section.

"Non-current accounts payable" are valued at the total amount payable under contractual obligations and are recognized as follows:

- Import purchase orders: the liability is recognized when the purchase order is issued.
- Local purchases: the liability is recognized upon acceptance of the certificate of receipt of materials (CRM).
- Accounts payable on the transfer of assets (BOT): recognized when ownership of the asset is transferred to Grupo ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

A partial or full decrease in "Non-current accounts payable" is recognized when they are transferred to the short-term portion and when Grupo ICE amortizes or settles any amount owed.

(vi) Prepaid income

Government aid received from local or foreign governments that meet the conditions to be considered government grants and that are expected to be realized to income during more than one accounting period is recorded as "Prepaid income".

Long-term prepaid income is booked at the fair value of the government grant received.

Prepaid income decreases as the portion that is expected to be realized in income during the accounting period is reclassified to current liabilities.

(vii) 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.

Legal provisions

a. 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

b. Restoration and dismantling

The provision for restoration and dismantling is made for all the expected costs for future restoration, renovation, and other obligations of sites where Grupo ICE's productive assets and projects are located to the extent that a legal or constructive obligation exists.

The provision for restoration and dismantling includes costs related to zone recovering, such as environmental remediation, soil conditioning, reforestation and maintenance of planted species, construction of access roads, people's mobilization, improvements to the infrastructure of facilities near the projects (such as schools and parks), etc.

The best estimate of the costs of restoration and dismantling arising from the installation of an asset, discounted at their current net value, is provisioned and capitalized at the beginning of each project when the obligation to incur those costs is originated.

c. Price adjustment

The provision for price adjustment is the expected cost of the obligations, according to the best estimate made by the corresponding technical and financial areas of the outflows required to settle obligations with suppliers.

ICE capitalizes the amounts provisioned for price adjustments, provided that they meet the criteria for recognition of property, plant, and equipment; otherwise, they are recognized in profit or loss.

The provision for price adjustment may be presented during the construction phase or when the asset is in operation. If the asset is in operation, the price adjustment is depreciated over the remaining useful life of the corresponding asset.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

## d. 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 the obligations with its customers.

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

(viii) 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 face value.

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.

(h) Current liability policies(i) Securities payable

Obligations with third parties as a result of the issue of debt securities (commercial paper) that represent payment commitments for terms of one year and the current portion of "Long-term securities payable" expected to be settled within one year are booked under "Securities payable".

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Obligations for securities issued by Grupo ICE are recognized at face value based on the contracted debt.

A partial or full decrease in debt securities (bonds) is recognized when Grupo ICE amortizes or settles any amount owed.

(ii) Loans payable

Obligations with entities, financial institutions, suppliers, or lessors for one year or less, as well as the current portion or the portion maturing in the short term of long-term loans payable, are booked under "Current loans payable". "Current loans payable" is booked at the face value of the underlying contracts.

A partial or full decrease in "Current loans payable" is recognized when Grupo ICE amortizes or settles any amount owed or when the obligation expires.

(iii) Finance lease obligations

The portion of the non-current obligation expected to be settled in one year or less is booked as "Current finance lease obligations".

Obligations with different entities arising from the ordinary course of business are booked as "Short-term finance lease obligations". Short-term finance lease obligations with settlement dates of more than one year, if any, are reclassified to the long-term section of the consolidated statement of financial position.

"Short-term finance lease obligations" are valued at the total amount payable under the contractual terms.

A partial or full decrease in finance lease obligations is recognized when Grupo ICE amortizes or settles any amount owed.

(iv) Current accounts payable

Obligations with different entities arising from the ordinary course of business with settlement dates of one year or less are booked as "Current accounts payable".

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“Current accounts payable” are valued at the total amount payable under contractual obligations and are recognized as follows:

- Acquired services: the recording of liabilities for acquired services (service orders) are recorded as investment or operating costs when the services are paid (cash basis of accounting)
- Import purchase orders: the liability is recognized when the purchase order is issued.
- Local purchases: the liability is recognized upon acceptance of the CRM.
- Accounts payable arising from the transfer of assets (BOT): recognized when the asset is transferred to Grupo ICE.

A partial or full decrease in “Current accounts payable” is recognized when Grupo ICE amortizes or settles any amount owed.

(v) Prepaid income

Obligations arising from advance payments made by customers for services rendered in the ordinary course of business, construction services provided to third parties, and the current portion of long-term government grants expected to be realized in profit or loss within one year are recognized as “Prepaid income”.

“Prepaid income” is booked at the agreed amount of the services rendered, and it decreases as the services are rendered or the systematic allocation of government grants is realized based on the useful life of the main asset related to the grant received.

(vi) Accrued employer obligations payable

The amount calculated to pay the statutory Christmas bonus, vacation days, and the back-to-school bonus is recognized as “Accrued employer obligations payable”. These accrued expenses payable are booked at the cost incurred.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

b) 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.

The subsidiary CVCRSA is not obligated to pay the back-to-school bonus; consequently, a provision is not booked for this concept.

c) Vacation

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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

d) Occupational hazard

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.

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.

(vii) Accrued interest payable

Finance costs (interest and commissions) accrued but not paid, resulting from obligations with financial institutions or agencies are recorded as "Accrued interest payable".

Accrued finance costs payable are valued at historical cost according to the contractual terms and conditions of the respective debt.

A partial or full decrease in accrued finance costs payable is recognized when the entity settles any amount owed or when finance costs are capitalized.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(viii) Other liabilitiesValuation of derivative financial instruments

Changes in the fair value of cash flow hedges are booked as “Valuation of derivative financial instruments”. The value changes in response to changes in the underlying asset’s price.

For qualifying hedging instruments, the effects of changes in their valuation are classified in other comprehensive income or profit or loss for the period based on an evaluation of their effectiveness. The effect of the “Valuation of derivative financial instruments”, which are not classified as hedges, is booked as financial costs in profit or loss.

“Valuation of derivative financial instruments” is liquidated on a future date according to contractual terms and conditions.

In the cash flow hedge accounting to hedge the currency risk on the fixed-rate debt, the net liquidation of interest arising from the hedge instrument (cash flow exchange) is recognized.

In the cash flow hedge accounting to hedge the currency risk on the fixed-rate debt, the effect of foreign exchange differences arising from the quantification of the debt in a currency other than the colón is reversed, with net interest earned from the hedge instrument, to recognize the reclassification of the derivative’s effective portion from profit or loss to equity.

The valuation of the instrument is closely related to equity or to profit or loss according to the measurement of the instrument’s effectiveness.

Obligations derived from credit

Temporary liabilities arising from commitments with suppliers for purchase orders financed by a special purpose loan that the financial entity settles directly with suppliers are booked as “Obligations derived from credit”.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“Obligations derived from credit” are booked at the face value of purchase orders. As part of these obligations, Grupo ICE records transaction costs, such as commissions, fees, and other costs necessary to formalize the agreement, except for finance and administrative costs.

Grupo ICE subsequently measures these obligations at amortized cost using the effective interest method.

Obligations derived from credit are partially or fully settled when the financial entity pays any commitments with the supplier on behalf of Grupo ICE. This payment is accounted for as settlement of the original financial liability, recognizing a new financial liability with the entity that settled the obligation.

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”.

“Deposits from private individuals or companies” are booked at face value or at the amount agreed for construction of the works.

“Deposits from private individuals or companies” are paid when the service is provided, the contract is extinguished, deposits are reimbursed to the guarantors, or the customer violates the terms and conditions of the contract.

(i) Memoranda account policies

Debit or credit memoranda accounts include contingent rights or obligations, assets and securities given or received in custody, consignment, for management, or as a guaranty for any operation, and the notional values of derivative financial instruments, that may affect Grupo ICE; therefore, they are presented for informational purposes only.

Memoranda accounts are recognized at face value.

Memoranda accounts are offset, partially or in full, when contingent rights or obligations related to the operation are extinguished.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(j) Operating income policies(i) Income

Income earned on the sale of electricity, telecom, supplemental, and construction services, and other income, both locally and abroad, are recorded as "Operating income".

Income is recognized when evidence exists through a formal document that the significant risks and rewards of services rendered are transferred to the buyer, it is probable that the economic benefits derived from the transaction will be received, and costs incurred and refunds made can be measured reliably. Grupo ICE may not be held liable for management of the services rendered.

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 recognized for individual services rendered to customers (non-package services) or service plans or packages according to the commercial business strategy.

Income from services arising from the sale of plans or packages offered to customers is booked separately according to each type of service included in the plan or package.

Income from post-paid services arising from plans or packages or individual services (non-package services) is booked according to the date of invoice or receipt issued to the customer after the service is rendered (billing cycle).

Grupo ICE records the best estimate of income from operating services arising from the sale of electricity and telecom services, which have been rendered but not billed, when they can be estimated reliably and are materially significant, considering the stage of completion of the service and an analysis of the reasonableness of the income amount for the period, based on the offsetting of prior period income recorded in the current period with income not recorded at the end of the annual reporting period.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Grupo ICE records income from ordinary activities at the fair value of the consideration received or receivable, considering the amount of any discounts, bonus, or commercial rebates that Grupo ICE may grant.

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 the terminal is transferred to the purchaser.

When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognized as an expense or the provision used for this purpose is used, rather than as an adjustment of the amount of revenue originally recognized.

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 settlement.

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:

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- 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.

Assets transferred by customers to Grupo ICE as donations for purposes related to the electricity and telecom activity, either as property, plant and equipment or as non-reimbursable cash is recorded as other income.

The realization of government grants under which resources (cash or assets) are transferred to Grupo ICE, according to the systematic allocation defined in relation to the main asset related to the grant received, is recorded as other income.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(k) Operating cost policies(i) Operation and maintenance

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

The realized cost of fuels for thermal power generation, previously recognized as "Prepaid expenses", according to the systematic allocation established by ICE, based on the term indicated by the regulatory authority to recover such costs through the rate, is recorded as "Operation and maintenance".

"Operation and maintenance" is recognized at historical cost.

The portion resulting from systematic allocation of the depreciable amount of the cost of operating assets owned by Grupo ICE, as well as the net cost of operating assets that have been partially or fully retired during the period, is recorded as "Depreciation of operating assets".

Costs arising from depreciation of operating assets are booked based on systematic application of the depreciation method agreed for each group of assets. Depreciation is calculated using the straight-line method. The depreciable amount of operating assets represents the cost of acquiring or constructing the asset, plus any incidental costs, less the residual value established for each type of asset, when it is required.

Depreciation of operating assets begins when the work under construction is acquired or capitalized and the asset is in working condition.

(ii) Operation and maintenance of leased equipment

"Operation and maintenance of leased equipment" includes the cost of leasing, operating, and maintaining productive assets owned by third parties and used to provide electricity and telecom services and the cost of fuels for thermal power generation related to plants owned by third parties, previously recognized as "Prepaid expenses", according to the systematic allocation established by ICE, based on the term indicated by the regulatory authority to recover such costs through the rate.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Until 2016, ICE followed the policy of classifying lease agreements as operating leases and finance leases pursuant to Ministry of the Presidency's Decree No. 34334-MP "Regulations to make ICE's Lease Agreements" issued on February 28, 2008. The decree defines the general conditions to be included in lease agreements subscribed by ICE, which in turn should comply with Ministry of Finance's Executive Decree No. 3286 issued on December 6, 2005 and standards, procedures, and principles set forth in the *Government Procurement Act* and Regulations thereto. Accordingly, subscribed lease agreements are generally classified as operating leases. In January 2017, the aforementioned Decree No. 34334-MP was repealed by the Ministry of the Presidency.

Operating lease payments are recognized as expenses on the straight-line basis over the term of the lease in accordance with the agreement.

Minimum lease payments made under finance leases are distributed between the finance charge and the reduction of capital of the liability.

(iii) Supplemental services and purchases

Costs incurred by Grupo ICE to acquire electricity and telecom services from third parties are booked as "Supplemental services and purchases".

The acquisition of energy and the amortization of the cost (rate mismatch), previously recognized as "Prepaid expenses", related to the purchase of energy from independent power producers and the import of energy, are recorded as "Supplemental services and purchases".

"Supplemental services and purchases" are booked at the face value of the payment document.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(iv) 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 recognized at historical cost.

The production management costs of the Electricity Management are distributed among the subsegments that are part of the Electricity Segment, according to the established cost drivers.

(v) Technical service centers-operations

Costs incurred by technical units specialized in operations, which provide services to units in their own segment, other ICE segments, and external entities, are recognized as "Technical service centers-operations".

These centers book their operations at the historical cost of providing the services.

Costs related to technical service centers-operations are allocated to customers using the units of production method.

(l) Operating expense policies(i) Administrative

"Administrative expenses" correspond to expenses incurred by the Corporate Sector to promote and ensure efficient management, compliance with Grupo ICE's objectives and targets, as well as the normal development of administrative activities.

"Administrative expenses" are booked at historical cost.

"Administrative expenses" are distributed among the units that compose each of Grupo ICE's segments according to the methodology established for that purpose through the use of cost drivers.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“Selling expenses” include the following:

- Expenses incurred by Grupo ICE to sell electricity and telecom services and other technical services provided to customers. This includes activities such as design of services, customer care, and recovery of the economic benefits generated by those services.
- The cost of mobile terminals and other devices required to render electricity and telecom services.
- The realized cost of mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans, according to the systematic allocation based on the term of the plan.
- The portion of the mobile terminals sold for a discounted price under post-paid mobile telephony plans that corresponds to the income from terminals recognized at the time of sale.
- The cost of mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans that is pending amortization in the event that the service is canceled or the plan is changed.

Selling expenses are booked at historical cost.

(iii) Preliminary studies

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

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Expenses related to “Preliminary studies” are booked at historical cost.

(iv) Pre-investment studies

“Pre-investment studies” include the following:

- Expenses incurred in the pre-investment phase of projects for which execution is under analysis. This item includes feasibility studies for projects or works to be built.
- Prior mitigation and social compensation costs incurred in the feasibility phase of projects or works with no duly prepared and approved environmental management plan correspond to a strategic rapprochement with interest groups that will be affected in the construction phase.

“Pre-investment studies” are booked at historical cost.

(v) Supplemental operating expenses

“Supplemental operating expenses” include the following:

- Other expenses incurred by Grupo ICE to ensure the quality of the construction and operation of works owned by third parties are recognized as “Other operating expenses”. 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”<sup>1</sup> planned and controlled by ICE.

Supplemental operating expenses are recognized at historical cost.

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<sup>1</sup> 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(vi) 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" include costs incurred in contracts for the sale of services concerning the construction of works and technical services provided by Grupo ICE, internally or to third parties, as established and negotiated with the contractor.

"Other expenses" are booked at historical cost.

(m) Finance income and finance cost policies(i) Finance income

"Finance income" corresponds to income arising from activities other than normal operations, including returns on securities, cash balances in financial entities, and loans granted to third parties under agreements.

Gains on exchange rate fluctuations (required to settle or update monetary assets and liabilities denominated in foreign currency) are booked as "Finance income".

"Finance income" is booked for the amount specified in documentation underlying the transaction.

(ii) Finance costs

"Finance costs" include the following:

- Costs arising from loans, placement of securities (bonds), investments, or any other obligation used for Grupo ICE's management purposes.
- Interest collected by Grupo ICE on subloans must be deducted from interest payments made to the bank, except for subloans for which the principal has been paid with Grupo ICE's own funds, in which case interest is recognized as income for the period.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- “Finance costs” are recognized in the period, unless they are directly attributable to the acquisition or construction of Grupo ICE’s productive assets, in which case they are capitalized as costs of the asset.
- Loss on exchange rate fluctuations (required to settle or update monetary assets and liabilities denominated in foreign currency).
- The effect of the variation of the “Valuation of derivative financial instruments” liability item, when instruments are not classified as hedge accounting and are, therefore, recognized at fair value through profit or loss or in accordance with the measurement of the instrument’s efficiency.

“Finance costs” are booked at historical cost.

(iii) Income from investments in other companies

Returns on investments in companies other than subsidiaries and associates, as declared by those companies, are recognized as “Income from investments in other companies”.

“Income from investments in other companies” is booked for the amount specified in documentation underlying the transaction.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 8. Property, plant and equipment, net**

As of December 31, 2017 and 2016, property, plant and equipment comprises the following general asset categories:

	As of December 31,	
	2017	2016 (Restated)*
<b>Cost:</b>		
Operating assets	¢ 7,191,494	6,934,654
Operating assets and other operating assets under finance leases	844,271	844,949
Other operating assets	433,106	382,917
<b>Total operating assets - cost</b>	<b>8,468,871</b>	<b>8,162,520</b>
<b>Accumulated depreciation:</b>		
Operating assets	3,667,688	3,447,269
Operating assets and other operating assets under finance leases	21,092	6,775
Other operating assets	294,572	287,897
<b>Total accumulated depreciation of operating assets - cost</b>	<b>3,983,352</b>	<b>3,741,941</b>
<b>Operating assets, net</b>	<b>4,485,519</b>	<b>4,420,579</b>
<b>Other assets</b>		
Construction work in progress	293,183	341,859
Materials in transit for investment	28,367	50,974
Inventory for investment projects	106,531	118,648
Design and planning of the execution	99,933	92,952
<b>Total other assets</b>	<b>528,014</b>	<b>604,433</b>
<b>Total property, plant and equipment</b>	<b>¢ 5,013,533</b>	<b>5,025,012</b>

(\*) See notes 39 and 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

## (i) Cost

The general categories of operating assets are as follows:

Cost	As of December 31, 2015 (Restated)*	Additions and capitalizations	Disposals	Transfers	As of December 31, 2016 (Restated)*	Additions and capitalizations	Disposals	Transfers	As of December 31, 2017
Land	¢	130,664	3,522	(780)	27,885	161,291	664	(99)	467
Buildings		185,857	3,698	(232)	149,582	338,905	1,930	(63)	(1,588)
Hydroelectric power generation		2,297,824	46,225	(3,475)	19,153	2,359,727	17,457	(158)	1,324
Thermal power generation		182,141	787	(13,977)	(582)	168,369	463	(4)	(31)
Geothermal power generation		528,897	150	-	(1,196)	527,851	(8,952)	-	(332)
Wind power generation		11,702	-	-	778	12,480	-	(695)	-
Solar power generation		12,743	93	-	(721)	12,115	283	(29)	-
Substations		431,854	17,654	(5,179)	(14,210)	430,119	26,976	(5,287)	-
Transmission lines		297,859	32,249	(1)	(162)	329,945	25,753	(7,045)	-
Distribution circuits		793,239	18,430	(4,841)	2,319	809,147	32,073	(8,789)	10
Public lighting		41,781	1,400	(231)	187	43,137	2,806	(329)	(12)
Communication, control, and infrastructure equipment		236,415	11,514	(5,662)	(674)	241,593	41,281	(3,586)	104
Transport		662,388	27,408	(922)	(3,481)	685,393	35,927	(4,783)	340
Access		443,570	25,522	(2,732)	(58,972)	407,388	75,848	(763)	2,911
Civil and electromechanical		235,831	11,428	-	(60,960)	186,299	16,642	(4)	17
Platforms		211,625	9,655	(4,332)	3,947	220,895	22,702	(6,564)	(25)
<b>Subtotal operating assets</b>		<b>6,704,390</b>	<b>209,735</b>	<b>(42,364)</b>	<b>62,893</b>	<b>6,934,654</b>	<b>291,853</b>	<b>(38,198)</b>	<b>3,185</b>
<b>Operating assets and other operating assets under finance leases:</b>									
Land		1,948	-	-	5,706	7,654	-	(50)	-
Buildings		29,340	-	-	600	29,940	-	-	-
Hydroelectric power generation		-	795,298	-	-	795,298	547	-	452
Transport		-	-	-	-	-	1,961	-	(1,961)
Access		2,593	7,351	-	(57)	9,887	1,379	-	(3,171)
Furniture and equipment		2,152	43	-	(25)	2,170	86	(1)	80
<b>Subtotal operating assets and assets under finance</b>		<b>36,033</b>	<b>802,692</b>	<b>-</b>	<b>6,224</b>	<b>844,949</b>	<b>3,973</b>	<b>(51)</b>	<b>(4,600)</b>
<b>Other operating assets</b>		<b>370,561</b>	<b>22,955</b>	<b>(13,644)</b>	<b>3,045</b>	<b>382,917</b>	<b>67,927</b>	<b>(16,143)</b>	<b>(1,595)</b>
<b>Non-operating assets</b>		<b>57,869</b>	<b>-</b>	<b>-</b>	<b>(57,869)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>¢</b>	<b>7,168,853</b>	<b>1,035,382</b>	<b>(56,008)</b>	<b>14,293</b>	<b>8,162,520</b>	<b>363,753</b>	<b>(54,392)</b>	<b>(3,010)</b>
(*) See notes 39 and 40.									

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As indicated in note 7(d)(i), starting January 1, 2016, ICE adopted the adjusted cost accounting policy as the new cost of operating assets. This cost comprises the historical cost and the revaluation cost integrated into a single value based on the fact that such assets are associated with operations subject to rate regulation. Before 2016, Grupo ICE's operating assets were booked at cost, except for all of the Electricity Segment's operating assets and all of Grupo ICE's land and buildings, which up to December 2015 were subject to annual revaluation using established indexes determined using a formula that considers the US external price index (Bureau of Labor Cost Trend) and the Costa Rican consumer price index, and the prior and current year exchange rates. As a result of the adoption of this accounting policy, the revaluation reserve is reversed by transferring it to the development reserve. The reversal amounted to ¢1,086,305 in 2016.

Until 2016, as indicated in note 6, Grupo ICE reflected its investment in submarine cable as operating assets – transport. In 2017, as a response to the gradual adoption of best accounting practices, this investment was reclassified to intangible assets and equity investment. The gross amount reclassified was ¢83,083, which comprises ¢18,325 in equity investment and ¢64,758 in intangible assets. This adjustment was performed retrospectively (see notes 39 and 40).

The account “Operating assets under lease agreements” corresponds to the value of productive assets under agreements classified as finance leases. As of December 31, 2017, lease agreements are as follows:

*Reventazón Hydroelectric Power Plant Lease Agreement:*

This agreement was subscribed by UNO P.H. Reventazón Trust (the lessor) and ICE (the lessee). The term of the lease is 20 years, and half-yearly payments are based on the amount paid by the UNO P.H. Reventazón Trust for the debt with the creditor banks. In 2017, the half-yearly payment amounts to ¢27,954 (US\$49 million). The agreement is classified as a finance lease; it is effective starting November 15, 2016, since the construction of the works was completed at the end of 2016.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The aforementioned lease agreement derives from the terms and conditions established in the trust agreement called “UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement”, subscribed in May 2013 by ICE and Scotiabank de Costa Rica, whereby ICE acts as the trustor and main beneficiary, Scotiabank de Costa Rica as Trustee, and the individuals identified in each notification for appointment of secondary beneficiaries as such.

The main clauses of the UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement are as follows:

- a. Develop, continue the construction, lease, operate, and offer maintenance to the Reventazón Hydroelectric Project and subscribe the necessary financing to achieve those goals.
- b. Create autonomous and independent capital to secure and guarantee compliance with the trust’s obligations.
- c. Organize the guarantee trust to which the trust equity will be transferred, whereby this trust will act as the trustor, the secured creditors as the beneficiaries, and this trust’s trustee as the trustee. The trustee of the guarantee trust is Scotiabank de Costa Rica.
- d. Comply with the trust’s obligations established in the transaction documents, including making payments to secured creditors that granted loans or invested in securities for the development, financing, construction, lease, operation, and maintenance of the Reventazón Hydroelectric Power Plant.
- e. Once (i) the objectives of this trust have been met, (ii) the obligations established in the transaction documents have been fulfilled, and (iii) the trustee receives written authorization from the representative of the secured creditors; transfer the trust equity to the trustor, who also acts as the main beneficiary.
- f. Pursue any other objective or purpose derived from the nature of this trust agreement and the transaction documents that does not infringe good faith in business or violates the relevant legislation.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Trust equity will be composed of: (i) assets placed in the trust property to develop the Reventazón Hydroelectric Project; (ii) works and equipment involved in the project's development process; (iii) the trustor's contributions in cash or in kind; (iv) resources obtained by the trust under loan agreements and from issue, placement, and management of securities, if issued; (v) income from the lease of the plant and any other income generated by the trust in the normal course of business; (vi) licenses, authorizations, studies, and documents required to support the attainment of the trust's objectives; (vii) trust accounts and investments and returns derived therefrom and any other resources that the trustee manages in accordance with this trust; (viii) any income earned by the trust generated from the project, directly or indirectly; (ix) future goods that would be included in the trust equity; (x) the equity of the guarantee trust upon its return to the trust as trustor in accordance with the terms and conditions of the guarantee trust.

The trustee shall manage and, if appropriate, make use of the trust equity in accordance with purposes and provisions of the agreement and meeting all of the trust's obligations.

All funds received by the trust on any account or reason shall be immediately deposited by the trustee in the bank accounts held with the guarantee trust, in accordance with the terms and conditions of the guarantee trust; except for the funds obtained from bridge loans, which shall be deposited in the accounts opened by the trust for such purposes.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Pursuant to the trust agreement, the Reventazón Hydroelectric Power Plant was built as a joint investment made by ICE and the trust. Upon completion of the works in 2016, ICE included under “Operating assets under lease agreements” the amount of ₡800,658, which is the total amount of the construction cost. This amount includes the cost of the investment directly made by ICE and the investment made by the trust, (₡340,420 and ₡460,418, respectively). The lease agreement was created based on the reference amount of ₡460,207. Since the trust’s investment in this project was financed through loans denominated in colones and in US dollars, the installment of the lease agreement includes a portion in colones and another in US dollars. Similarly, the obligation with the trust, related to the investment made by the trust, is broken down into those two currencies. During 2017, the total amount paid on these installments in colones and in US dollars is ₡28,333 and US\$43 million, respectively (2016: ₡13,698 and US\$20 million).

*Telecommunications Tower Lease Agreement (Buildings):*

On January 29, 2010, Banco de Costa Rica (BCR) and ICE subscribed the “ICE-BCR Real Estate Securitization Trust”, whereby BCR in its capacity as trustee commits to obtain the financial resources to acquire the building known as Centro Empresarial La Sabana (La Sabana Business Center). The trust would obtain this financing from the sale of securities called “Securities/Certificates of the ICE-BCR Real Estate Securitization Trust”.

The purpose of this trust was to provide ICE with a comprehensive physical space solution to perform its activities. The terms and conditions of the trust include as one of the trust’s purposes leasing the equipped building to ICE. As a result, the irrevocable lease agreement was subscribed with a purchase option on that property (La Sabana Business Center), through which the trust leases the property to ICE for a 12-year term, at the end of which ICE may exercise the purchase option, with a monthly lease installment based on the variables established in the aforementioned lease agreement.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The funds received by the trust from the lease shall be used to pay the principal and returns on the securities placed in the securities market, as well as private issues and funds obtained from local and international bank loans. During 2017, the monthly installment ranged between ¢199 and ¢216 (2016: ¢201 and ¢217).

*RANGE-Telecommunications Lease Agreement (Access):*

In January 2014, Banco de Costa Rica (BCR) and ICE subscribed the “ICE-RANGE/BCR Trust Agreement” to defray the costs of design, construction, and maintenance of the New Generation Access Network (*Red de Acceso de Nueva Generación* (RANGE)), including works associated with the installation of equipment, channeling of civil and electromechanic works, pipeline construction, cable laying, and fiber optic installations. This trust agreement gave rise to the lease agreement subscribed by ICE and the trust relating the works to be developed by the trust. The lease is for an 18-year term, starting in May 2016, with monthly payments based on the formula established in the addenda to the lease agreement. During 2017, the monthly lease payment ranged between ¢148 and ¢254 (2016: between ¢254 and ¢255).

(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:

Depreciation - cost	As of December 31, 2015 (Restated)*	Depreciation	Disposals	Transfers	As of December 31, 2016 (Restated)*	Depreciation	Disposals	Transfers	As of December 31, 2017
	¢								
Buildings	60,125	4,469	(3)	68,817	133,408	6,974	(13)	(280)	140,089
Hydroelectric power generation	985,865	39,088	(2,251)	7,598	1,030,300	39,858	-	2,658	1,072,816
Thermal power generation	93,672	3,376	(9,385)	458	88,121	3,272	(3)	(32)	91,358
Geothermal power generation	229,963	27,848	-	(640)	257,171	27,140	-	(5)	284,306
Wind power generation	6,748	2,157	-	494	9,399	2,121	(622)	-	10,898
Solar power generation	2,921	2,100	-	(140)	4,881	956	(28)	-	5,809
Substations	196,586	17,127	(504)	(10,115)	203,094	23,349	(2,241)	(165)	224,037
Transmission lines	103,859	6,757	-	262	110,858	8,554	(1,386)	(18)	118,008
Distribution circuits	406,212	14,006	(3,431)	8,345	425,132	19,425	(6,953)	(1,675)	435,929
Public lighting	19,052	926	(144)	756	20,590	2,382	(284)	(163)	22,525
Communication, control, and infrastructure equipment	93,986	4,034	-	2,997	101,017	7,185	(3,337)	(301)	104,564
Transport	397,304	59,936	(773)	(6,246)	450,221	30,135	(2,854)	(5,027)	472,475
Access	286,110	47,229	(2,132)	(12,856)	318,351	37,248	(194)	624	356,029
Civil and electromechanical	219,996	4,105	-	(65,132)	158,969	13,135	(1)	(5)	172,098
Platforms	110,372	28,856	(3,606)	135	135,757	26,587	(5,749)	152	156,747
<b>Subtotal operating assets</b>	<b>3,212,771</b>	<b>261,994</b>	<b>(22,229)</b>	<b>(5,267)</b>	<b>3,447,269</b>	<b>248,321</b>	<b>(23,665)</b>	<b>(4,237)</b>	<b>3,667,688</b>
<b>Operating assets and other operating assets under finance leases:</b>									
Buildings	2,786	-	-	-	2,786	601	-	-	3,387
Hydroelectric power generation	-	976	-	-	976	12,869	-	(1,037)	12,808
Transport	-	-	-	-	-	19	-	(19)	-
Access	-	1,104	-	-	1,104	2,257	-	(649)	2,712
Furniture and equipment	1,050	763	-	96	1,909	276	-	-	2,185
<b>Total operating assets and assets under finance leases</b>	<b>3,836</b>	<b>2,843</b>	<b>-</b>	<b>96</b>	<b>6,775</b>	<b>16,022</b>	<b>-</b>	<b>(1,705)</b>	<b>21,092</b>
<b>Other operating assets</b>	<b>273,333</b>	<b>21,504</b>	<b>(10,524)</b>	<b>3,584</b>	<b>287,897</b>	<b>20,795</b>	<b>12</b>	<b>(14,132)</b>	<b>294,572</b>
<b>Non-operating assets</b>	<b>10,527</b>	<b>-</b>	<b>-</b>	<b>(10,527)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>¢ 3,500,467</b>	<b>286,341</b>	<b>(32,753)</b>	<b>(12,114)</b>	<b>3,741,941</b>	<b>285,138</b>	<b>(23,653)</b>	<b>(20,074)</b>	<b>3,983,352</b>

(\*) See notes 39 and 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

On January 1, 2016, as a result of the adoption of the adjusted cost accounting policy, to disclose the value of its operating assets, Grupo ICE regrouped in a single account the accumulated depreciation on historical costs and accumulated depreciation on revaluation. Furthermore, with the adoption of component accounting, the useful lives of elements of operating assets were reviewed, considering the disaggregation by component.

Accordingly, for 2017 and 2016, assets are depreciated using the following useful lives:

	<b>Useful life (in years)</b>
Buildings	40 to 60
Plant and equipment for power generation	5 to 60
Plant and equipment for telecommunications	2 to 60
Machinery and equipment	3 to 25

During 2015, a change was made in the depreciation method of some categories of "Other operating assets" from the straight-line method to depreciation based on use. The change was made based on a technical analysis prepared by the Engineering and Construction Business unit of the Electricity Segment, considering those variables that best express the expected consumption pattern (hours, kilometers, days) and nature of the assets.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(iii) Construction work in progress

As of December 31, 2017 and 2016, other assets - construction work in progress is as follows:

Project	As of December 31, 2017	As of December 31, 2016 (Restated)*
Las Pailas II Geothermal Project (1)	₡ 140,269	90,406
Borinquen Geothermal Project (2)	29,681	25,760
Anillo Sur Transmission Line (3)	19,981	18,293
Acquisition of assets - senior management (4)	16,612	11,329
Extension of the transmission line network (5)	11,136	184
Advanced mobile evolution	7,362	16,604
Reinforcement of the distribution system	5,681	10,738
Ongoing quality improvement (distribution)	4,957	5,680
Improvements to the telecom transport network	4,487	4,067
Converged transport system	4,384	159
Implementation of the loyalty program	3,446	-
Tejona Transmission Line	3,097	-
Cóbano Transmission Line	2,752	20,428
Basic engineering studies	2,666	1,888
Advanced mobile services	2,663	11,661
Advanced public terminals	2,643	408
Improvements to the electricity transport network	2,567	4,276
La Carpio deviation	2,388	2,154
Río Claro-Paso Canoas deviation	2,350	578
Construction and repair of civil and metallic works	2,115	1,101
Network development	2,076	2,307
Technical services for distribution projects	1,453	1,308
Installation and management of real estate	1,337	14,256
Colima technical support	1,278	604
Public lighting	1,262	711
Government agreements	1,217	863
Renewal of power transformers	1,026	-
Capillary network	1,022	5,188
Jacó Transmission Line	-	12,865
New Power Control Center	-	12,863
Management of network elements	-	11,286
Cariblanco-Trapiche Transmission Line	-	3,363
Sundry projects	12,822	52,170
<i>Less: Elimination of internal consumption of services**</i>	<i>(1,547)</i>	<i>(1,639)</i>
<b>Total</b>	<b>₡ 293,183</b>	<b>341,859</b>

\* See note 39.

\*\* Internal consumption of electricity and telephone services by the different areas of ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The nature and main transactions of construction work in progress during the period are described below:

(1) Las Pailas II Geothermal Project

The balance reflected corresponds to the cost of several construction works required to build a new geothermal power plant with a power output of 55 MW. The purpose of the project, which is expected to begin operations in 2019, is to supplement the power output of the Las Pailas I Power Plant and increase the geothermal power output. The project, which is contemplated in ICE's electricity generation expansion plan, is located in Guanacaste and is being built on the foothills of Rincón de la Vieja Volcano. The estimated investment is US\$325 million.

(2) Borinquen Geothermal Project

This project includes the costs 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\$399 million. The Borinquen 1 project is expected to begin operations in January 2022.

(3) Anillo Sur Transmission Line

This project consists of the construction of the Anillo Sur Transmission Line, located between the Tarbaca-Parrita Transmission Line and Río Macho del Este Transmission Line, with approximately 16.2 km and a double-circuit transfer of 230 kW. The investment confirmed and expected for this project is US\$24 million. The works are expected to be completed by the second quarter of 2018.

(4) Acquisition of assets - senior management

An investment of ¢16,612 was made in the Financial-Administrative Modernization Program (PMAF), a solution that integrates the redesign, integration, and consolidation of operational and administrative processes of the finance, supply chain, human capital and project management areas, based on the industry's best practices, supported by a platform that includes software, licenses, and infrastructure.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The PMAF program seeks to improve the efficiency and availability of information for ICE's effective decision making, by relying on an integrated system, SAP's Enterprise Resource Planning (ERP). It is expected to be concluded during the first half of 2019.

(5) Extension of the LTE network

The investment of ¢11,136 corresponds to costs incurred in the execution of the transmission line network (LTE) project. Its goal is to provide more bandwidth and data transmission speeds, matching the demand and the needs of end users. This is aligned with ICE's goal to continue working in the expansion of coverage and capacity, so as to provide a better customer experience. It is expected to be completed in the second quarter of 2018.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Movement in construction work in progress, materials in transit, and inventory for investment projects as of December 31, 2016 and 2017 is as follows:

Account	As of December 31, 2015	Additions	Capitalizations	Interest and commissions	Warehoused	Allocated to construction work in progress	As of December 31, 2016 (Restated)*	Additions	Capitalizations	Interest and commissions	Warehoused	Allocated to construction work in progress	As of December 31, 2017
Construction work in progress	¢ 408,004	310,461	(393,807)	18,840	-	-	343,498	258,013	(316,889)	10,108	-	-	294,730
Less: ** Elimination of internal consumption of services	(3,048)	1,409	-	-	-	-	(1,639)	92	-	-	-	-	(1,547)
<b>Subtotal construction work in progress</b>	<b>404,956</b>	<b>311,870</b>	<b>(393,807)</b>	<b>18,840</b>	<b>-</b>	<b>-</b>	<b>341,859</b>	<b>258,105</b>	<b>(316,889)</b>	<b>10,108</b>	<b>-</b>	<b>-</b>	<b>293,183</b>
Materials in transit for investment	19,170	54,646	-	-	(22,572)	(270)	50,974	4,698	-	-	(27,305)	-	28,367
Inventory for investment projects	125,523	117,350	-	-	-	(124,225)	118,648	146,995	-	-	-	(159,112)	106,531
Design and planning of the execution	92,994	-	-	-	-	(42)	92,952	6,981	-	-	-	-	99,933
<b>Total</b>	<b>¢ 642,643</b>	<b>483,866</b>	<b>(393,807)</b>	<b>18,840</b>	<b>(22,572)</b>	<b>(124,537)</b>	<b>604,433</b>	<b>416,779</b>	<b>(316,889)</b>	<b>10,108</b>	<b>(27,305)</b>	<b>(159,112)</b>	<b>528,014</b>

Grupo ICE follows the policy of reclassifying to inventory for investment projects those items of operating inventory that are directly related to investment assets, and other assets that are not physically included in the asset and are thus not available for use since they are not installed or operating in the manner intended by ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(iv) Design and planning of the execution

Until December 31, 2016, this asset was presented separately in the statement of financial position. In 2017, due to the restructuring of the presentation of the financial statements, this asset was included in property, plant, and equipment (see note 40). The balance of ¢99,932 as of December 31, 2017 (2016: ¢92,952) includes costs incurred or investments made in the design and planning stage of the execution of the following projects:

Project	As of December 31,	
	2017	2016
El Diquís Hydroelectric Project (1) ¢	87,351	85,364
Reinforcement of the South-Center Transmission Line (2)	4,991	4,991
Fourth Cliff Hydroelectric Project (3)	4,861	-
Transmission lines (4)	2,502	2,218
Other	304	483
<b>Subtotal</b>	<b>100,009</b>	<b>93,056</b>
* Elimination of internal consumption of services	(77)	(104)
<b>Total ¢</b>	<b>99,932</b>	<b>92,952</b>

\* Internal consumption of services by the different areas of ICE.

(1) El Diquís Hydroelectric Project (PHED):

The strategy for the development of electricity generation in Costa Rica is defined in ICE's electricity generation expansion plan, which is prepared periodically. This strategy is part of the policies and general guidelines of the National Development Plan and National Energy Plan published by the Ministry of the Environment (MINAE) and the Ministry of Planning and Economic Policy (MIDEPLAN), which establish, among other, the guidelines of the energy sector, including the goal of "providing energy to meet the country's demand, through an energy matrix that ensures an optimal and continuous supply of electricity and fuels, promoting the efficient use of energy, to maintain and improve the country's competitiveness."

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Thus, ICE carries out expansion plans to address the legal mandate to meet the country's electricity demand through the rational development of the country's physical sources for production of electricity, mainly water resources. Thus, the investment in PHED was incorporated in response to the electricity generation expansion plans. This project aims to take advantage of the flow of El General River so as to generate an estimated hydroelectric power output of 650 MW and an average power output of 3,050 GWh/year.

PHED has been part of the country's electricity generation expansion plans for over 10 years. In the 2016-2035 Generation Expansion Plan (PEG2016), PHED is the main axis of the recommended strategy because it is part of the plans with lower economic costs.

According to PEG2016 in effect, PHED is expected to begin operations in 2026. For that year, the country's generation demand will exceed 14,000 GWh, an increase of approximately 30% on the current electricity consumption.

PHED is a key project in the country's plans because it meets, in a cost-efficient manner, three of the goals of national planning: addressing the increasing demand, compensating for variations in new sources of electricity generation that complement the diversification of the electricity matrix, and reducing the country's CO<sub>2</sub> emissions. The dam and the plant's output will enable compensation of the quick variations of wind and solar power generation, which would otherwise be unacceptable within the electricity generation system. The PHED's storage of energy makes it feasible to increase the incursion in these variable sources without jeopardizing service quality.

PHED was declared a matter of public and national interest through Executive Order No. 34312-MP MINAE of 2008. Accordingly, any process required for project execution, including financing, environmental studies, and other affairs, will be a matter of priority for any and all governmental institutions involved in such process, giving such related activities a prompt and effective process.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The project's feasibility studies were completed, and the environmental feasibility permit is in process. As of December 31, 2017, the investment in the development of the project amounts to ₡87,351. This includes costs incurred for a number of activities related to the Environmental Impact Assessment, which as of the date of this report is in an advanced stage, for subsequent presentation to the National Technical Environmental Secretariat (SETENA), the local entity that reviews, approves, and issues the Environmental Permit. The purpose of the study is to identify, foresee, and assess the positive and negative environmental impacts and prepare an Environmental Management Forecast Plan aimed at preventing, correcting, mitigating, or compensating those effects, seeking the project's sustainable development. In executing this study, ICE not only considered the requirements established by local legislation and regulations, but also used as a reference the requirements established by certain international financial institutions as part of the terms and conditions to finance projects like this.

Together with the environmental study, as part of the elements required to meet the aforementioned local and international regulatory requirements and the requirements of the United Nations (UN) and ILO Convention 169 *Convention concerning Indigenous and Tribal Peoples in Independent Countries* (C169) of the International Labour Organization, ratified by our country in 1992, the process known as Indigenous Consultation, which arises from the fact that the location of the aforementioned hydroelectric project includes indigenous territories that will be affected by the construction of the project's dam. Consequently, under the responsibility of the Government of Costa Rica, the aforementioned consultation process began with the purpose of establishing a platform for dialogue between the Government and indigenous peoples, aimed at preparing a regulatory instrument to govern the activities defined in order to address the effects of PHED's execution. The stage of agreements for the consultation mechanism was concluded at the beginning of 2018, and on March 6, 2018, the General Mechanism for Indigenous Consultation was signed, Executive Decree No. 40932-MP-MJP). This allows for beginning the preparation of the Indigenous Consultation of PHED, which is binding for the granting the aforementioned Environmental Permit. According to the general work plan, the consultation process is expected to begin in the second semester of 2018.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Feasibility studies indicate that the investment foreseen for the execution of PHED amounts to approximately US\$4,000 million (including escalations and finance costs). To finance this investment, ICE has created a work team, known as the Financing Committee, which has been exploring financing arrangements based on the expected business model, which could have both a local and regional scope, at the beginning of operations, supplying the energy needs of the country and the Central American region, in which the Regional Electricity Market (MER) operates. It is important to consider in the search for project's financing that PHED is a matter of public interest, as mentioned above, and a renewable energy project, which are elements that provide robustness to the negotiations that will be eventually required in the financing process.

ICE's Corporate Governance considers that PHED is key to comply with the electricity generation expansion plan, as a measure to meet the future energy demand; in addition, a strong regional electricity market is expected to exist at that time. Furthermore, the activities performed by ICE prior to the implementation of the project are proactive efforts that will facilitate the aforementioned financing process.

Due to the considerable investment required, some social sectors have questioned the need for the project, arguing that new non-traditional sources will lower the price and will become a cheaper alternative. This opposition may present obstacles to the execution of the plant. However, ICE's technical opinion is that PHED provides regulation services that will be essential in the future in order to integrate generation sources, which have a lower cost but are intermittent and variable.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(2) Reinforcement of the South-Center transmission:

This project seeks to reinforce the network in the Southern Region of Costa Rica, in view of the entrance into operation of PHED project and to lessen the electrical overcharge problems identified in the lines Macho-San Isidro and San Isidro-Río Claro. The reflected amount corresponds to the costs incurred in the prefeasibility studies and other costs.

(3) Fourth Cliff Hydroelectric Project (PHFC):

The amount of ¢4,861 corresponds to the costs incurred in the design and planning of the Fourth Cliff Hydroelectric Project, which seeks to use the water of Reventazón River for electricity generation after it is used by the Reventazón Hydroelectric Power Plant. The estimated investment is US\$327 million, and the power output will be 69 MW.

This hydroelectric power plant will operate in line with the Reventazón project, following the same production program; therefore, it does not require a dam. The date scheduled for beginning of operations is January 2021.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 9. Intangible assets**

Intangible assets are as follows:

	As of December 31,	
	2017	2016
	(Restated)*	
<b>Intangible assets with finite useful lives</b>		
Licenses, systems, and applications (1)	¢ 113,216	106,758
Submarine cable IRU (2)	66,392	64,758
<b>Subtotal</b>	<b>179,608</b>	<b>171,516</b>
<b>Accumulated amortization</b>		
Licenses, systems, and applications	(84,520)	(85,310)
Submarine cable IRU (2)	(35,089)	(29,713)
<b>Accumulated amortization</b>	<b>(119,609)</b>	<b>(115,023)</b>
<b>Intangible assets with finite useful lives, net</b>	<b>59,999</b>	<b>56,493</b>
<b>Intangible assets with indefinite useful lives</b>		
Rights of way and easements (3)	29,266	28,742
Goodwill	2,813	2,813
<b>Intangible assets with indefinite useful lives, net</b>	<b>32,079</b>	<b>31,555</b>
<b>Accumulated amortization with indefinite useful lives</b>		
Goodwill	-	(444)
<b>Accumulated amortization with indefinite useful lives, net</b>	<b>-</b>	<b>(444)</b>
<b>Net total</b>	<b>¢ 92,078</b>	<b>87,604</b>

(\*) See notes 39 and 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Movement in intangible assets is as follows:

As of December 31,												
	Intangible assets with finite useful lives						Intangible assets with indefinite useful lives				Total	
	Licenses, systems and applications		Submarine cable IRU		Rights of way and easements		Goodwill					
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016		
		(Restated)*		(Restated)*		(Restated)*		(Restated)*		(Restated)*		
Cost:												
Opening balance	₡ 106,758	105,497	64,758	63,124	28,742	25,578	2,813	5,863	203,071	200,062		
Additions	24,997	19,096	-	-	541	3,164	-	-	25,538	22,260		
Transfers	27	(10,909)	1,634	1,634	-	-	-	(3,050)	1,661	(12,326)		
Disposals	(18,566)	(6,926)	-	-	(17)	-	-	-	(18,583)	(6,926)		
Total cost	₡ 113,216	106,758	66,392	64,758	29,266	28,742	2,813	2,813	211,687	203,070		
Accumulated amortization												
Opening balance	₡ 85,309	72,451	29,713	25,229	-	-	444	601	115,466	98,281		
Amortization - expense	20,537	24,499	1,136	-	-	-	-	(157)	21,672	24,342		
Amortization - investment	(5,330)	(4,856)	-	-	-	-	-	-	(5,330)	(4,856)		
Transfers	1,652	(5,538)	4,240	4,484	-	-	(444)	-	5,448	(1,054)		
Disposals	(17,648)	(1,247)	-	-	-	-	-	-	(17,648)	(1,247)		
Total amortization	84,520	85,309	35,089	29,713	-	-	-	444	119,608	115,466		
Net total	₡ 28,696	21,449	31,303	35,045	29,266	28,742	2,813	2,369	92,079	87,604		

(\*) See notes 39 and 40.

(\*) See notes 39 and 40.

Amortization method

The amortization of intangible assets - licenses, software, and applications is calculated using the straight-line method from the date the asset is available for use, over the useful life established and reviewed by the technical areas defined by the segments.

ICE's rights of way and easements have no defined term over which they generate future benefits to Grupo ICE; accordingly, they are not amortized.

The amortization of intangible assets with finite useful lives is calculated using the straight line method from the first date of use, using as reference a useful life of three years.

(1) Licenses, software and applications

During 2011, Grupo ICE received as a donation from a foreign government the source code of the Merlink software, which served as basis for the development of the online purchases application of the Government of Costa Rica.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Grupo ICE has the accounting record of the development of the software for online purchases used by all government entities, including ICE, which is being amortized over three years.

ICE uses this software for internal work, and it is also used by other institutions of the Costa Rican government. Grupo ICE receives no income from the operation and maintenance of this software by outside users.

Licenses, software, and applications are amortized in the operating costs and operating expenses accounts presented in the consolidated statement of income and expenses.

(2) Submarine cable Indefeasible Right of Use (IRU)

As indicated in note 8, the investment made by Grupo ICE in submarine cable (Global Crossing and Arcos) was maintained as part of the asset account "Operating assets – transport". In 2017, after analyzing the nature and characteristics of this investment, it was decided that the best classification, in view of the best accounting practices, is as an intangible asset, since it represents the right of use of optical fiber for data traffic. Thus, in 2017 the amount of that IRU was incorporated into the "Intangible assets" account, including the infrastructure built from sea level to be able to connect this cable to ICE's communication equipment on land. Therefore, the gross amount of ₡64,758 is reclassified from "Operating assets - transport" to "Intangible assets", along with accumulated amortization of ₡29,713 as of December 31, 2016 (see note 39 and 40 for the effects of the reclassification).

The terms of those agreements establish average terms of 16 years, extendable for the lower of a similar term or the useful life of the cable, at no cost to ICE except for the monthly maintenance cost. Consequently, these rights are amortized; the expense account used is "Depreciation of operating assets".

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(3) Rights of way and easements

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

In accordance with the terms and conditions of the agreements, Grupo ICE has rights of way and easements that do not entail the purchase of land or assignment of property to Grupo 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:

Equity investments	As of December 31,	
	2017	2016 (Restated)*
<b>Joint venture:</b>		
Tecmunica, S.A.-Nicaragua; 500 ordinary shares with a par value of C\$101,000 each; 50% ownership interest (1)	938	830
<b>Subtotal</b>	<b>938</b>	<b>830</b>
<b>Other investments valued at cost:</b>		
Consorcio Cable Maya (2)	15,085	15,067
Toro III Hydroelectric Project Trust (3)	11,203	11,203
Empresa Propietaria de la Red, S.A. 6,500 shares with a par value of US\$1,000 each; 10.36% ownership interest (4)	3,124	3,124
Red Centroamericana de Fibras Ópticas, S.A. 300 ordinary shares with a par value of US\$1,000 each; 11.11% ownership interest (5)	143	143
Other	193	64
<b>Subtotal</b>	<b>29,748</b>	<b>29,601</b>
<b>Total</b>	<b>€ 30,686</b>	<b>30,431</b>

(\*) See notes 39 and 40.

(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 in Nicaragua named Tecmunica, S.A., with the purpose of selling and marketing telecommunication services.

At Meeting No. 6069 held on December 2, 2013, ICE's board of directors approved a first contribution in the amount of US\$1 million. Subsequently, at Meeting No. 6157 held on November 30, 2015, ICE's board of directors approved a second contribution in the amount of US\$1 million.

At an extraordinary meeting of the General Board of Shareholders of Tecmunica, S.A. held on December 4, 2015, shareholders agreed to increase the share capital from 100 shares to 1,000 registered shares for a total of C\$101,000,000, equivalent to US\$4 million, with a par value of C\$101,000 each, equivalent to US\$4,000, of which 500 shares correspond to ICE (50% ownership interest) for a total of C\$50,500,000, equivalent to US\$2 million.

In December 2017, an adjustment was made to capitalize construction work in progress in the amount of ¢3.

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

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

<i>In millions of colones</i>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Percentage ownership interest	50%	50%
Non-current assets	1,210	1,254
Current assets	924	612
Non-current liabilities	(14)	(7)
Current liabilities	(249)	(199)
Net assets (100%)	1,871	1,660
Group's share of net assets (50%)	936	830
Other adjustments (capitalization of investment - 50%)	2	-
Carrying amount of interest in joint venture	938	830
Revenue	1,722	1,113
Other income	27	13
Cost of sales	(1,042)	(608)
Operating expenses	(505)	(335)
Depreciation and amortization	(101)	(83)
Interest expense	(1)	(4)
Income tax expense	(30)	(29)
Profit and total comprehensive income (100%)	70	67
Profit and total comprehensive income (50%)	35	33
Group's share of total comprehensive income	35	33

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(2) Consorcio Cable Maya

This corresponds to the investment in the Maya 1 submarine cable, which provides services to the Caribbean, United States, Mexico, Honduras, Cayman Islands, Costa Rica, Panama, and Colombia.

The agreement for construction and maintenance of the Maya 1 submarine cable was signed in 1998, for a term of 25 years from the beginning of operations (first quarter of 2000). This is an agreement between 37 companies to build the aforementioned submarine cable in the Caribbean. ICE is co-owner, along with its subsidiary RACSA, of 7.31% of the investment in MIU (minimum investment unit) rings. As indicated in note 6, until 2016 this investment was reflected as operating assets - transport. In 2017, it was reclassified to equity investment.

(3) Toro III Hydroelectric Project Trust

The balance of ¢11,203 corresponds to ICE's investment in the Toro III Project. This investment was made jointly with Junta Administrativa del Servicio Eléctrico Municipal de Cartago (JASEC, Administrative Board of the Municipal Electricity Service of Cartago), as explained below.

On March 9, 2006, ICE and JASEC, subscribed a business partnership agreement for the design, financing, construction, and operation of the Toro III Hydroelectric Project, whereby both entities hold equal participation 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 BCR 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, 50% of the plant's national output will be recognized to JASEC from ICE, and a number of responsibilities managed by mutual agreement are defined.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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. The Toro III Hydroelectric Project's initial estimated value amounted to US\$214 million, which was financed with loans from Banco de Costa Rica and Banco Popular y de Desarrollo Comunal and with funds from ICE and JASEC in the amount of US\$44 million. Upon completion of works, a lease agreement was subscribed by the trust, ICE, and JASEC under an operating agreement.

According to this business partnership agreement, ICE and JASEC have equal participation in terms of rights and obligations; they performed the activities and actions necessary to design, finance, build, operate, and provide maintenance to Toro III Project. The amount reflected as equity investment corresponds to amounts provided to the aforementioned trust.

(4) 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 de los Países de América Central (SIEPAC, Central American Electric Interconnection System) 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%.

EPR's share capital is composed of 58,500 ordinary shares of US\$1,000 par value each. ICE owns 6,061 shares of US\$1,000 par value each, and CNFL owns 439 shares of US\$1,000 par value each, for a total of US\$6.5 million, equivalent to ¢3,124 (11.11% ownership interest) of Grupo ICE valued at cost of purchase.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(5) Red Centroamericana de Fibras Ópticas, S.A. – Nicaragua

In 2013, Grupo ICE acquired ownership interest in Red Centroamericana de Fibras Ópticas, S.A. (REDCA, S.A.), which is dedicated to developing, financing, constructing, operating, maintaining, and commercially exploiting and providing maintenance to telecommunications services or services related to IT and communications. REDCA S.A.'s share capital is composed of 2,700 shares with a par value of US\$1,000 each. Grupo ICE owns 300 shares (11.11% ownership interest) of which 93.24% correspond to ICE and 6.76% to CNFL.

**Note 11. Notes and other accounts receivable, net**

Notes and other accounts receivable are as follows:

	As of December 31,					
	2017			2016 (Restated)*		
	Non-current	Current	Total	Non-current	Current	Total
<b>Notes receivable</b>						
Loans to autonomous entities (1)	2,290	-	2,290	7,294	497	7,791
Payment arrangements	869	172	1,041	948	4,506	5,454
Other	-	1,902	1,902	-	1,595	1,595
<b>Subtotal notes receivable</b>	<b>3,159</b>	<b>2,074</b>	<b>5,233</b>	<b>8,242</b>	<b>6,598</b>	<b>14,840</b>
<b>Non-trade receivables</b>						
Other receivables (2)	-	33,746	33,746	-	28,799	28,799
Government	-	9,375	9,375	-	8,188	8,188
Service agreements - Other accounts receivable	-	-	-	1,215	-	1,215
<b>Subtotal non-trade receivables</b>	<b>-</b>	<b>43,121</b>	<b>43,121</b>	<b>1,215</b>	<b>36,987</b>	<b>38,202</b>
<b>Allowance for non-trade receivables</b>	<b>-</b>	<b>(1,347)</b>	<b>(1,347)</b>	<b>-</b>	<b>(7,186)</b>	<b>(7,186)</b>
<b>Non-trade receivables, net</b>	<b>-</b>	<b>41,774</b>	<b>41,774</b>	<b>1,215</b>	<b>29,801</b>	<b>31,016</b>
<b>Total notes and other accounts receivable, net</b>	<b>€ 3,159</b>	<b>43,848</b>	<b>47,007</b>	<b>9,457</b>	<b>36,399</b>	<b>45,856</b>

(\*) See note 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(1) Loan to autonomous entities

This account mainly includes the following balances:

a. 9-1-1 Emergency system

On December 21, 2012, an inter-institutional agreement was subscribed by ICE and the 9-1-1 emergency system through the "Agreement to Pay Accounts due from the 9-1-1 Emergency System to ICE". In this agreement, the debt was expressly acknowledged and accepted, and a "payment arrangement" was formally subscribed by the 9-1-1 emergency system to settle such debt.

On November 30, 2015, it was agreed that the 9-1-1 Emergency System will honor this financial obligation with 30 half-yearly payments from April 30, 2016 to October 31, 2030. This balance will bear annual interest at the BCCR's base deposit rate in effect one week before the payment date.

In Meeting No. 6234 held on September 13, 2017, the board of directors agreed to remit the debt of the 9-1-1 Emergency System, which amounted to ¢5,422. The amount of ¢4,489 was charged to the allowance for doubtful accounts, and the difference was recorded as an expense.

b. Empresa Propietaria de la Red (EPR)

A loan agreement was subscribed by ICE and EPR to repay IDB loan No. 1908 for US\$4.5 million, equivalent to ¢2,290 (2016: ¢2,369). 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, as of 2017, equivalent to 3-month LIBOR of 1.36% + funding margin of 0.12% + IDB's lending spread of 0.85%, for a total of 2.33% (2016: 3-month LIBOR of 0.88% + 0.11% funding margin + 1.15% IDB's lending spread), unsecured.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(2) Other receivables

As of December 31, 2017, this balance includes, among others, advance payments made by ICE to purchase fuel for thermal power generation in the amount of ¢96 (2016: ¢1,094); advance payments to individuals related to warranties in the amount of ¢199 (2016: ¢3,458); interest and commissions in the amount of ¢3,078 (2016: ¢3,051); receivables for services with unregulated rates in the amount of ¢11,644 (2016: ¢5,973), and judicial deposits in the amount of ¢1,366 (2016: ¢2,758).

Movement in the allowance for doubtful accounts is as follows:

	As of December 31, 2015	Used during the year	Allowance expense	As of December 31, 2016	Used during the year	Allowance expense	As of December 31, 2017
<b>ICE</b>							
Allowance for non-trade receivables ¢	7,193	(8)	1	7,186	(5,840)	1	1,347

(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 mainly correspond to investments in bonds (debt securities) with returns ranging between 5.53% and 10% per annum (2016: between 5.16% and 11.46% per annum) in colones and between 4.06% and 5.84% per annum (2016: between 4.06% and 5.84% per annum) in US dollars. The total value of this asset comprises investments in securities denominated in colones in the amount of ¢105,958 and denominated in US dollars in the amount of ¢28,338 (equivalent to US\$50 million) (2016: ¢84,869 denominated in colones and ¢13,204 denominated in US dollars [equivalent to US\$24 million]), maturing between January 2018 and April 2028 (2016: May 2017 and April 2028). ICE follows the policy of not determining and disclosing the long-term portion of its current assets. Consequently, the portion that matures in the short-term is not reclassified to the current portion. Investments in financial instruments are as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
<b>Investments in financial instruments:</b>			
Government (Foreign debt bonds)	¢	58,234	40,522
Banco Popular y de Desarrollo Comunal (bond)		23,376	13,266
Banco Central de Costa Rica (bond)		16,229	12,311
Banco Nacional de Costa Rica (bond)		9,725	1,000
Banco Hipotecario de la Vivienda (bond)		4,000	4,000
Investment costs		1,568	851
Banco Crédito Agrícola de Cartago (bond)		-	12,236
Other		21,164	13,887
<b>Total</b>	<b>¢</b>	<b>134,296</b>	<b>98,073</b>

(\*) See note 40.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 13. Guarantee and Savings Fund (restricted fund)**

The “Guarantee and Savings Fund” is a separate vehicle created in conformity with Article 17 of Law No. 449 dated April 8, 1949, Law No. 3625 of December 16, 1965, and Article 2 of the *Insurance, Disability, and Death Regulations* of the Costa Rican Social Security Administration (CCSS), which does not have its own legal capacity; therefore, it uses ICE’s legal corporate identification for all purposes. The Guarantee and Savings Fund manages the contributions made by ICE and its employees, as applicable, to the Supplemental Pension System, Guarantee and Savings Fund, Mutual Fund, and Severance Benefits Fund. The Guarantee and Savings Fund is directed by a Managing Board composed of 12 members, six appointed by ICE and six appointed by the employees (in both cases, three regular and three alternate members). This Board is subordinate to ICE’s board of directors. The management of those funds is performed through separate vehicles indicated above.

The “Guarantee and Savings Fund” account balance reflects the total amount of Grupo ICE’s economic contributions to the Guarantee and Savings Fund System and the Supplemental Pension System and reflects the capitalization amounts recognized by both systems on those contributions, net of withdrawals made in advance, pension rights, liquidations, and actuarial adjustments applied. The “Guarantee and Savings Fund” is as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
Contribution to the Supplemental Pension System	¢	132,700	124,725
Contribution to the Guarantee and Savings Fund System		88,356	84,101
<b>Total</b>	¢	<b>221,056</b>	<b>208,826</b>

The liability or the obligation related to pensions in payment process and the net assets available to cover future pension benefits associated with active workers are reflected in the accounting records of the Supplemental Pension System vehicle. This vehicle is subject to the regulations of the Office of the Superintendent of Pensions (SUPEN), entity that regulates the country’s pension system.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2017, according to the financial statements of the Supplemental Pension System, the provision or obligation for pensions in payment process amounts to approximately ¢118,746 (June 30, 2016: ¢108,040), and net assets available for future pension benefits amount to approximately ¢185,660 (June 30, 2016: ¢177,190). These figures were calculated by an independent actuary, based on the projected unit credit method and SUPEN requirements. The main actuarial assumptions considered in the calculation are as follows:

	<u>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
Real discount rate(s)	4.25%	3.50%
Nominal discount rate(s)	8.42%	7.64%
Expected salary increase rate(s)	2%	2%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	<u>4.00%</u>	<u>4.00%</u>

**Note 14. Inventories**

Inventories are as follows:

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
		<u>(Restated)*</u>
Operating inventory	¢ 64,831	69,147
Operating inventory - other assets	32,904	32,719
Materials and equipment held in custody	25,055	21,302
Materials in transit for operation	4,223	5,699
<b>Subtotal</b>	<b>127,013</b>	<b>128,867</b>
Allowance for valuation of inventory	(29,974)	(34,591)
<b>Inventory, net</b>	<b>¢ 97,039</b>	<b>94,276</b>

(\*) See notes 39 and 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Inventories recognized as expenses during 2017 amount to ¢24,818 (2016: ¢20,399).

Movement in the allowance for valuation of inventories is as follows:

		As of December 31,								2017
		2015 (Restated)*	Used during the year	Allowance expense	Net realizable value	2016 (Restated)*	Used during the year	Allowance expense	Net realizable value	
Allowance for valuation of inventory	¢	48,483	(12,022)	792	(2,662)	34,591	(12,742)	3,742	4,383	29,974
<b>Total</b>	¢	<b>48,483</b>	<b>(12,022)</b>	<b>792</b>	<b>(2,662)</b>	<b>34,591</b>	<b>(12,742)</b>	<b>3,742</b>	<b>4,383</b>	<b>29,974</b>

(\*) See note 39.

During 2017, the net realizable value policy was implemented for ICE's inventories. This required an accounting adjustment to mobile terminals available for sale, both for the current and prior periods (see notes 6 and 39).

**Note 15. Temporary investments, net**

As of December 31, 2017, Grupo ICE's held-to-maturity investments (term certificates of deposit, zero-coupon central bank bonds) amount to ¢2,694 and are denominated in US dollars (2016: ¢15,603, of which ¢11,013 are denominated in colones and ¢4,590 in US dollars), and its available-for-sale investments (term certificates of deposit, Scotiabank bonds, monetary stabilization bonds, commercial paper, and mortgage participation certificates) amount to ¢27,922, of which ¢22,216 are denominated in colones and ¢5,706 in US dollars (2016: ¢95,002, of which ¢88,604 are denominated in colones and ¢6,398 in US dollars) bearing interest at rates ranging between 1.30% and 8.95% per annum (2016: between 2.72% and 7.99% per annum), and maturing between four and 12 months (2016: between three and 12 months).

		<u>As of December 31,</u>	
		<u>2017</u>	<u>2016</u>
<b><u>Current investments</u></b>			
Held-to-maturity investments	¢	2,694	15,603
Available-for-sale investments		27,922	95,002
Valuation of investments		(376)	2,034
<b>Temporary investments, net</b>	<b>¢</b>	<b>30,240</b>	<b>112,639</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2017, as a result of a valuation of available-for-sale investments, Grupo ICE's recognized a net unrealized loss of ¢376 (2016: unrealized gain of ¢2,034).

**Note 16. Restricted funds**

Restricted funds are as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Guarantees received from third parties:</b>		
In US dollars	¢ 452	508
In colones	849	767
<b>Specific purpose funds:</b>		
BCR Platinum (¢) - Cash for payment of services (1)	12,210	25,668
BNCR Gold - Cash for amortization of short-term debt	3,311	1,575
<b>Total</b>	<b>¢ 16,822</b>	<b>28,518</b>

(1) Cash for payment of services

Cash is held for payment of the most relevant operations, such as: energy purchases, loan payments, securities, purchase of materials, payroll, employer contributions, employee benefits, among other.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 17. Trade receivables, net**

Trade receivables are as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016*</b>
Other receivables	¢	155.904	145.750
Government		8.599	5.558
<b>Subtotal</b>		<b>164.503</b>	<b>151.308</b>
Allowance for doubtful accounts		(58.359)	(55.336)
<b>Trade receivables, net</b>	<b>¢</b>	<b>106.144</b>	<b>95.972</b>

(\*) See note 40.

The trade receivables balance includes ¢58,356 (2016: ¢55,159) corresponding to accounts in administrative and legal collection.

Movement in the allowance for doubtful accounts is as follows:

		<b>As of December 31, 2015</b>	<b>Used during the year</b>	<b>Allowance expense</b>	<b>As of December 31, 2016</b>	<b>Used during the year</b>	<b>Allowance expense</b>	<b>As of December 31, 2017</b>
Allowance for doubtful accounts	¢	52,717	(7,144)	9,763	55,336	(4,228)	7,251	58,359

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Prepaid expenses are as follows:

		As of December 31,	
		2017	2016 (Restated)*
Mobile terminals and devices	¢	31,242	32,190
Use agreement (1)		20,551	19,937
Finance costs - Reventazón (2)		14,337	14,476
ING-0008 (U-500) insurance policy, net		2,520	2,724
Other		1,138	2,416
<b>Total</b>	<b>¢</b>	<b>69,788</b>	<b>71,743</b>

(\*) See notes 39 and 40.

**(1) Lease agreements – Garabito Thermal Power Plant**

The balance of ¢20,551 (2016: ¢19,937) includes ¢20,540 (2016: ¢19,884) related to lease payments made in advance on the Garabito Thermal Power Plant lease agreement, subscribed by ICE and BCR (the latter as trustee of the Garabito Securitization Trust).

The lease agreement became effective in June 2010, with the understanding that the plant would begin operations at that time. Accordingly, ICE paid seven monthly lease payments in advance, from June to December 2010. However, due to the delay in the beginning of operations of the power plant, on November 19, 2010, the management of the Executing Unit of the Garabito Thermal Power Plant and ICE agreed to apply the first lease payment (made in June 2010) on January 2011, and so on until March 2022, date when the lease term expires. After March 2022, ICE may continue to use the asset for an additional seven months. Thus, until March 2022, ICE will have seven monthly lease payments paid in advance, which amount to US\$5,230 thousand per month, for a total of US\$36,610 thousand, equivalent to ¢20,540.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(2) Finance costs - Reventazón

The amount of ¢14,337 (2016: ¢14,476) corresponds to the quantified finance costs on the obligation derived from the recording of the finance lease subscribed by ICE and the Reventazón Hydroelectric Project Trust.

**Note 19. Cash and cash equivalents**

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand and in banks	¢ 69,945	74,888
Temporary investments	102,959	99,336
<b>Total</b>	<b>¢ 172,904</b>	<b>174,224</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The characteristics of temporary investments are as follows:

				As of December 31, 2017					
	Currency	Issuer	Type of financial instrument	Balance	Face value	Rate of return	Term in months		
Uncommitted:									
Available for sale	Colones	Banco Popular y de Desarrollo Comunal	Bond	¢ 2,400	2,400	6.35%	Jan-18		
		Banco Lafise	Term certificate of deposit (global bond)	5,000	5,000	7.07%	Feb-18		
		Government	Zero-coupon Central Bank bond (global bond)	12,476	12,544	7.00% - 7.10%	Feb-18		
		Banco Cathay	Term certificate of deposit (global bond)	6,000	6,000	7.07%	Feb-18		
		Financiera Desyfin	Term certificate of deposit (global bond)	3,000	3,000	6.82%	Feb-18		
		Repurchase operations	Repurchase operations	7,351	7,421	5.28% - 5.41%	Jan-18		
		BN Sociedad de Fondos de Inversión, S.A.	Investment fund	16	16	-	Demand		
		US dollars	Banco Internacional de Costa Rica	Overnight deposit	33,730	-	0.20%	Demand	
		Banco Internacional de Costa Rica	Overnight deposit	2,385	-	0.20%	Demand		
Held to maturity	Colones	Government	Zero-coupon Central Bank bond (over-the-counter)	4,015	4,021	5.06%	Jan-18		
		Banco Popular y de Desarrollo Comunal	Investment fund	800	800	3.55%	Demand		
		Banco de Costa Rica	Term certificate of deposit	2,000	2,000	6.80%	Nov 17 - Feb 18		
		Banco Popular y de Desarrollo Comunal	Investment fund	676	676	2.82%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	600	600	3.39%	Demand		
		Banco de Costa Rica	Term certificate of deposit	800	800	4.80%	Nov 17 - Feb 18		
		Banco Nacional de Costa Rica	Term certificate of deposit	13	13	6.00%	Mar 16 - Mar 18		
		US dollars	Banco Nacional de Costa Rica	Term certificate of deposit	28	28	3.20%	Mar 16 - Mar 18	
		Banco Nacional de Costa Rica	Term certificate of deposit	3	3	2.90%	Dec 16 - Feb 18		
		Banco Nacional de Costa Rica	Term certificate of deposit	4	4	3.55%	Mar 17 - Mar 18		
		Banco Internacional Costa Rica	Term certificate of deposit	850	850	3.50%	Jul 17 - Jan 18		
		Banco Popular y de Desarrollo Comunal	Investment fund	283	283	1.85%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	340	340	1.85%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	227	227	1.79%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	283	283	1.91%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	113	113	1.82%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	566	566	1.82%	Demand		
		Banco Popular y de Desarrollo Comunal	Investment fund	481	481	1.90%	Demand		
		Fair value	Colones	SAFI Banco Nacional de Costa Rica	I.F. BN SuperFondo colones, non-diversified	4,795	-	4.12% - 4.38%	Demand
				SAFI Banco de Costa Rica	I.F. BCR short-term colones, non-diversified	4,833	-	3.69% - 3.99%	Demand
SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified			2,089	-	3.13% - 3.72%	Demand		
SAFI Banco Popular	I.F. BPDC money market colones, non-diversified			242	-	4.40%	Demand		
SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified			2,305	-	4.20%	Demand		
SAFI Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified			431	-	4.03%	Demand		
SAFI Banco Nacional de Costa Rica	I.F. BN SuperFondo colones, non-diversified			395	-	4.12% - 4.38%	Demand		
Banco de Costa Rica	Investment fund			343	-	3.69% - 3.99%	Demand		
SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified			227	-	3.13% - 3.72%	Demand		
Banco Popular	I.F. BPDC money market colones, non-diversified			468	-	4.40%	Demand		
SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified			272	-	4.17%	Demand		
Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified			85	-	4.32%	Demand		
US dollars	SAFI Banco Nacional de Costa Rica			I.F. BN DinerFondo US dollars, non-diversified	2	-	1.23% - 1.62%	Demand	
SAFI Banco de Costa Rica	I.F. BCR liquidity US dollars, non-diversified			1,995	-	1.82% - 1.88%	Demand		
SAFI Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified			3	-	1.76% - 1.89%	Demand		
Banco Nacional de Costa Rica	I.F. BN SuperFondo US dollars, non-diversified			3	-	1.23% - 1.62%	Demand		
Banco de Costa Rica	I.F. BCR liquidity US dollars, non-diversified			13	-	1.82% - 1.88%	Demand		
Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified			4	-	1.76% - 1.89%	Demand		
Scotiabank de Costa Rica	I.F. Scotiabank public US dollars, non-diversified			6	-	1.53%	Demand		
Investment costs	Colones			Cost of investment transactions	Cost of investment transactions	8	-	-	-
Total Grupo ICE				¢ 102,959					

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

				As of December 31, 2016			
	Currency	Issuer	Type of financial instrument	Balance	Face value	Rate of return	Term in months
<b>Uncommitted:</b>							
<i>Available for sale</i>	Colones	BAC San José	Term certificate of deposit (global bond)	¢ 4,000	4,000	4.80%	Mar-18
		Repurchase operations	Repurchase operations	29,558	29,733	3.61% - 4.22%	Jan-17
		Grupo Mutual Alajuela	Mortgage participation certificate	3,000	3,000	5.75%	Feb-17
		BN Sociedad de Fondos de Inversión, S.A.	Investment fund	16	-	-	Demand
	US dollars	Banco Internacional de Costa Rica	Overnight deposit	16,304	-	0.20%	Demand
		Repurchase operations	Repurchase operations	653	657	3.06% - 3.07%	Feb-17
		Banco Internacional Costa Rica	Overnight deposit	728	-	0.20%	Demand
<i>Held to maturity</i>	Colones	Banco Nacional de Costa Rica	Short-term investment	452	452	0.20%	Jan-17
		Banco Nacional de Costa Rica	Short-term investment	877	848	0.20%	Jan-17
		Banco de Costa Rica	Term certificate of deposit	2,500	2,500	1.08	Dec 16 - Jan 17
	US dollars	Banco de Costa Rica	Term certificate of deposit	3,958	3,958	1.15%	Jan-17
		Banco de Costa Rica	Term certificate of deposit	1,370	1,370	1.20%	Dec 16 - Jan 17
		Banco Internacional Costa Rica	Term certificate of deposit	2,357	2,357	0.50%	Nov 16 - Jan 17
<i>Fair value</i>	Colones	SAFI Banco Nacional de Costa Rica	I.F. BN DinerFondo colones, non-diversified	8,575	-	2.53% - 2.69%	Demand
		SAFI Banco de Costa Rica	I.F. BCR short term colones, non-diversified	7,619	-	2.81% - 3.13%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified	5,950	-	2.12% - 3.12%	Demand
		SAFI Banco Popular	I.F. BPDC money market colones, non-diversified	3,185	-	2.78%	Demand
		SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified	2,227	-	2.23%	Demand
		SAFI Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified	514	-	2.98%	Demand
		SAFI Banco Nacional de Costa Rica	I.F. BN DinerFondo colones, non-diversified	783	-	2.52% - 2.71%	Demand
		SAFI Banco de Costa Rica	I.F. BCR short term colones, non-diversified	383	-	2.81% - 3.13%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified	219	-	2.66% - 3.32%	Demand
		Banco Popular	I.F. BPDC money market colones, non-diversified	371	-	2.78%	Demand
		SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified	259	-	2.23%	Demand
		Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified	80	-	2.98%	Demand
	US dollars	SAFI Banco Nacional de Costa Rica	I.F. BN DinerFondo US dollars, non-diversified	1	-	1.42% - 1.88%	Demand
		SAFI Banco de Costa Rica	I.F. BCR short term US dollars, non-diversified	2,718	-	1.78% - 2.11%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified	337	-	1.75% - 1.80%	Demand
		SAFI Banco Nacional de Costa Rica	I.F. BN DinerFondo US dollars, non-diversified	3	-	1.44% - 1.88%	Demand
		SAFI Banco de Costa Rica	I.F. BCR short term US dollars, non-diversified	286	-	1.78% - 2.11%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified	4	-	1.82% - 1.91%	Demand
		Scotiabank de Costa Rica	I.F. Scotiabank public US dollars, non-diversified	6	-	1.48%	Demand
<i>Investment costs</i>	Colones	Cost of investment transactions	Cost of investment transactions	43	-	-	-
<b>Total</b>				¢ 99,336			

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 20. Financial debt****a. Debt securities payable (bonds)**

Debt securities (bonds) issued by Grupo ICE are as follows:

	Currency	Interest rate	Year of maturity	As of December 31,				
				2017		2016		
				Non-current	Total	Non-current	Current	Total
<b><u>Internal debt:</u></b>								
Bond issue	¢	Variable between 5.95% and 9.10% and fixed between 11.41% and 11.45% (2016: fixed between 10.87% and 11.45%)	2020-2036	¢ 262,037	262,037	255,206	25,000	280,206
Bond issue	US\$	Fixed between 5.97% and 7.65% (for both years)	2019-2027	318,388	318,388	310,547	-	310,547
<b><u>Foreign debt:</u></b>								
Bond issue	US\$	Fixed between 6.38% and 6.95% (for both years)	2021-2043	570,490	570,490	556,440	-	556,440
<b><u>Other:</u></b>								
Bond issue premiums	¢	Variable between 7.45% and 8.70% and fixed between 5.98% and 11.41% (2016: variable between 6.49% and 8.70% and fixed between 6.95% and 11.41%)	2020-2027	5,404	5,404	6,481	-	6,481
Bond issue discounts	¢	Variable 7.70% and fixed between 5.97% and 11.41%, (2016: variable 7.10% and fixed between 5.97% and 11.41%)	2019-2043	(5,005)	(5,005)	(5,185)	-	(5,185)
				¢ 1,151,314	1,151,314	1,123,489	25,000	1,148,489

Debt securities payable (bonds) denominated in US dollars amount to US\$1,558 million. These obligations are secured by a general ICE guarantee.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The carrying amount of loans payable is as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
<b><u>Internal debt:</u></b>			
In colones	¢	176,714	173,074
In US dollars		47,397	49,464
<b><u>Foreign debt:</u></b>			
In colones		82,530	-
In US dollars		587,327	668,155
In yen		89,565	70,577
		<b>983,533</b>	<b>961,270</b>
Non-current		883,003	869,919
Current		100,530	91,351
	¢	<b>983,533</b>	<b>961,270</b>

As of December 31, 2017, the Inter-American Development Bank (IDB) performed a partial conversion of agreement No. 2747/OC-CR, subscribed on October 31, 2012, at the request of Grupo ICE. The conversion was performed on October 12, 2017, in the amount of US\$144 million, using an exchange rate of ¢574.12.

Loans payable are as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
<b><u>Internal debt:</u></b>			
State-owned banks	¢	217,423	213,170
Private banks		6,688	9,367
<b><u>Foreign debt:</u></b>			
Private banks		746,823	718,426
Other creditors		12,599	20,307
	¢	<b>983,533</b>	<b>961,270</b>

Loans payable in US dollars amount to US\$1,115 million, and loans payable in yen amount to ¥17,604 million.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Total non-current loans payable amount to ¢883,003 (2016: ¢869,919), of which ¢831,514 correspond to the Electricity Segment and ¢51,489 to the Telecom Segment. The current portion of loans payable amounts to ¢100,530 (2016: ¢83,783), of which ¢76,175 corresponds to the Electricity Segment and ¢24,355 to the Telecom Segment.

The finance cost and maturities of loans payable are as follows:

General characteristics of the debt (in US dollars, yen, and colones, as indicated)			
	Interest rate	Currency	Term
Internal debt	Variable between 7.80% and 10.50% (2016: variable between 2.00% and 14.00%)	¢	Maturing between December 03, 2021 and December 04, 2045
	Variable between 5.81% and 8.60% (2016: variable between 2.65% and 6.25%)	US\$	Maturing between July 23, 2018 and September 13, 2043
Foreign debt	Variable between 2.25% and 6.40% and fixed between 0.70% and 5.60% (2016: variable between 1.85% and 6.40% and fixed between 0.70% and 6.40%)	US\$	Maturing between January 31, 2018 and September 15, 2040
	Fixed between 0.60% and 2.20% (for both years)	JPY	Maturing between April 20, 2026 and August 20, 2054

Total loans payable for ¢983,533 (2016: ¢961,270) include loans with a general ICE guarantee in the amount of ¢653,504 and loans endorsed by the Government in the amount of ¢330,029.

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 the 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, ICE expressly and irrevocably accepts that non-compliance with payment obligations, with other terms and conditions of the loan agreement, or with loan agreements subscribed by 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, 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 ICE's debt (except for debt commitments given preference by law).

In addition to the above, Grupo ICE must comply with the following general clauses, among other conditions, which are included in several loan agreements:

- a) Grupo ICE will not, and will not permit any of its subsidiaries to, merge or consolidate with another private entity, except that: (a) any subsidiary of the Borrower (ICE) may merge or consolidate with any other subsidiary of the Borrower; (b) any subsidiary of the Borrower may merge with the Borrower, and (c) the Creditor (Bank) may approve a merger or consolidation provided that, in each case, no instances of non-compliance have occurred or continue to occur at the time of the proposed transaction, and the merger or consolidation is not the result of such non-compliance.
- b) Grupo ICE will not, and will not permit any of its subsidiaries to, sell, lease, transfer, or otherwise dispose of assets, or grant any option or other rights to purchase, lease, or otherwise acquire assets, except for (1) sales of inventory in the ordinary course of business, (2) in a transaction authorized by the Bank, and (3) sales of assets at fair value for an amount not exceeding US\$20 million (or its equivalent in other currencies) in any year.
- c) ICE will not subscribe any agreement whereby it agrees or commits to share with a third party the income earned, either directly or indirectly, from the works built using the financing provided by the entities.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- d) ICE will not, and will not permit any of its subsidiaries to, create or allow encumbrances on any of its assets, currently owned or acquired in the future, and it will not (nor will it permit any of its subsidiaries to) assign any rights to obtain income from works financed by the bank.
- e) ICE will, and will require each of its subsidiaries to, obtain insurance policies from responsible and reputable insurance associations or companies, in such amounts and covering such risks as are generally carried by companies engaged in similar businesses and that own similar properties in the same general areas where the Borrower or its subsidiaries operate.
- f) ICE will, and will require each of its subsidiaries to, substantially comply with the applicable laws, statutes, regulations, and orders, and such compliance shall include, among others, compliance with environmental laws, except to the extent that non-compliance is not reasonably expected to have a substantial negative impact.

As of December 31, 2017, financial covenants in connection with loan agreements meet the established limits. In the following cases, the corresponding waiver was timely processed and approved:

Terms and conditions of loan agreements - Banistmo

On May 26, 2017, ICE requested from Grupo Bancolombia/Banco Banistmo an amendment to the financial indicators of clause 7.2 Financial Obligations of the loan agreement.

The request was approved and communicated on July 17, 2017, authorizing a change in the limit of the "maximum debt to EBITDA ratio" from 5.60 times to 6.00 times, until maturity of the loan agreements.

Terms and conditions of loan agreements - IDB No. 1908 and No. 2747

In October 2017, ICE requested from IDB approval of the waiver of non-compliance with the "long-term debt to total assets ratio."

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
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In communication CID/CCR/1541/2017, dated December 12, 2017, IDB authorized the change in the limit of that indicator from 0.5 times to 0.61 times until maturity of the loan agreements.

Terms and conditions of loan agreements - IDB No. 1931 and The Bank of New York Mellon

On July 14, 2017, an amendment was requested through note No. 0078-0397-2017, due to non-compliance with the "total adjusted consolidated debt to total adjusted assets ratio." Through a communication issued on August 23, 2017, the bank authorized the amendment, changing the limit of the indicator from 0.45 times to 0.50 times for 2016 to 2033.

Terms and conditions of loan agreements - BEI

Due to non-compliance in the first half of 2017, an amendment was requested through note No. 5460-248-2017, dated June 23, 2017, for the "Long-term debt to total assets ratio".

In official communication JUOPS/OEU/AFC/af No. 2017-2666, dated December 12, 2017, the bank authorized the amendment, modifying the limit from 0.50 times to 0.55 times until December 31, 2019.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**c. Finance lease obligations**

As of December 31, 2017 and 2016, the balances of finance lease obligations are as follows:

	Interest rate	Year of maturity	As of December 31,					
			2017		2016			
			Non-current	Current	Total	Non-current	Current	Total
<u>Trusts in colones</u>								
Telecommunications building	Variable 8.70 (2016: variable 7.35%)	2030	18,104	885	18,989	19,066	778	19,844
RANGE	Variable 10.30% (2016: variable 11.10%)	2034	21,351	797	22,148	14,176	153	14,329
Reventazón Hydroelectric Project	Variable 8.75% (for both years)	2033	222,208	7,377	229,585	229,585	6,753	236,338
<u>Trusts in US dollars</u>								
Reventazón Hydroelectric Project	Variable 6.94% (2016: variable 6.15%)	2033	230,246	7,644	237,890	231,923	6,934	238,857
			491,909	16,703	508,612	494,750	14,618	509,368

As of December 31, 2017, finance lease obligations in US dollars amount to US\$417 million.

These balances are related to obligations derived from finance lease agreements subscribed by ICE and UNO P.H. Reventazón Trust, ICE-BCR Real Estate Securitization Trust, and ICE-RANGE/BCR Trust, in connection with the Reventazón Hydroelectric Power Plant, La Sabana Business Center, and the design, construction, and maintenance of the RANGE network, respectively. For P.H. Reventazón Trust, the liability is related to the balance of the obligations assumed by the Trust in colones and in US dollars.

(Continued)



## 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 arising from financing activities**

	Liabilities			Total
	Securities payable (bonds)	Loans payable	Finance lease obligations	
Balance as of December 31, 2016	1,148,489	961,270	509,368	2,619,127
<u>Changes due to cash flows from financing activities</u>				
Disbursements	6,327	91,554	-	97,881
Amortization	(25,392)	(91,349)	(14,810)	(131,551)
Reclassification of loans	-	429	-	429
<u>Total changes due to cash flows from financing activities</u>	<u>(19,065)</u>	<u>634</u>	<u>(14,810)</u>	<u>(33,241)</u>
Items not requiring cash	-	-	8,195	8,195
Effect of exchange rate variations	21,890	21,629	5,859	49,378
<b>Balance as of December 31, 2017</b>	<b>1,151,314</b>	<b>983,533</b>	<b>508,612</b>	<b>2,643,459</b>

**Note 21. Employee benefits**

Employee benefits are as follows:

		<u>As of December 31,</u>					
		2017			2016		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits	¢	83,855	24,772	108,627	104,049	26,516	130,565
<b>Total</b>	<b>¢</b>	<b>83,855</b>	<b>24,772</b>	<b>108,627</b>	<b>104,049</b>	<b>26,516</b>	<b>130,565</b>

(\*) See note 39.

As of December 31, 2017, of the total severance benefits obligation, the amounts of ¢105,018 and ¢3,609 (2016: ¢128,393 and ¢2,172) are related to the permanent employee payroll and project payroll, respectively.

Instituto Costarricense de Electricidad (ICE)Movement in defined benefit liability (severance benefits)

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:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
Balance at January 1	¢	116,941	115,967
Current service cost		3,053	4,981
Interest cost		12,237	11,279
Actuarial (gain) loss		(27,443)	10,512
(Gain) loss on severance benefits		-	791
Benefits paid		-	(21,235)
Severance benefits provision		(7,775)	(5,354)
<b>Defined benefit obligation at the end of the year</b>	<b>¢</b>	<b>97,013</b>	<b>116,941</b>

Actuarial assumptions

The main actuarial assumptions are as follows:

	<u><b>2017</b></u>	<u><b>2016</b></u>
Nominal discount rate	10.28%	9.18%
Expected salary increase rate	2.26%	4.00%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	4%

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. 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:

			<u><b>As of December 31, 2017</b></u>		
			<u><b>Discount rate variation</b></u>		
			<u>9.78%</u>	<u>10.28%</u>	<u>10.78%</u>
Salary increase rate	1.80%	¢	89,026	86,446	<b>84,007</b>
variation	2.30%	¢	92,202	<b>89,462</b>	86,876
	2.80%	¢	<b>95,556</b>	92,644	89,898

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The minimum amount of the obligation (¢84,007) occurs if the salary increase rate is the lowest in the sensitivity range (1.80%) and the discount rate is the highest (10.78%). The maximum amount of the obligation (¢95,556) occurs in the opposite case. The calculated amount of ¢89,462 falls in the mid-range of this sensitivity analysis.

			<u>As of December 31, 2016</u>		
			<u>Discount rate variation</u>		
			<u>8.68%</u>	<u>9.18%</u>	<u>9.68%</u>
Salary increase rate variation	3.50%	¢	116,231	112,104	<b>108,236</b>
	4.00%	¢	120,944	<b>116,537</b>	112,412
	4.50%	¢	<b>125,957</b>	121,246	116,842

The minimum amount of the obligation (¢108,236) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and the discount rate is the highest (9.68%). The maximum amount of the obligation (¢125,957) occurs in the opposite case. The calculated amount of ¢116,537 is at the mid-range of this sensitivity analysis.

As of December 31, 2017, the average retirement period is 17.5 years, and the average employee seniority is 16.9 years, with an average age of 43.9 years.

CNFLMovement in defined benefit liability (severance benefits)

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:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		As of December 31,	
		2017	2016
Balance at January 1	¢	7,945	8,141
Current service cost		789	819
Interest cost		708	733
Actuarial (gain) loss		(1,381)	1,283
(Gain) loss on severance benefits		-	1,352
Benefits paid		-	(2,768)
Severance benefits provision		(465)	(1,615)
<b>Defined benefit obligation at the end of the year</b>	<b>¢</b>	<b>7,596</b>	<b>7,945</b>

Actuarial assumptions

The main actuarial assumptions are as follows:

	As of December 31,	
	2017	2016
Nominal discount rate	10.28%	9.18%
Expected salary increase rate	3.24%	4.00%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	4%

The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effect of changes in the discount rate and in the salary increase rate on the calculation of the severance benefits provision.

The sensitivity analysis presented below shows the impact of a variation of 0.5% (positive or negative) on the liability. The midrange value was chosen by management to perform the calculations.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

			<u>As of December 31, 2017</u>		
			<u>Discount rate variation</u>		
			<u>9.78%</u>	<u>10.28%</u>	<u>10.78%</u>
Salary increase rate variation	2.70%	¢	7,530	7,176	<b>6,848</b>
	3.20%	¢	7,986	<b>7,596</b>	7,239
	3.70%	¢	<b>8,483</b>	8,055	7,662

The minimum value of the obligation (¢6,848) occurs if the salary increase rate is the lowest in the sensitivity range (2.70%) and the discount rate is the highest (10.78%). The maximum value of the obligation (¢8,483) occurs in the opposite case. The calculated value of ¢7,596 is at the mid-range of this sensitivity analysis.

			<u>As of December 31, 2016</u>		
			<u>Discount rate variation</u>		
			<u>8.68%</u>	<u>9.18%</u>	<u>9.68%</u>
Salary increase rate variation	3.50%	¢	7,879	7,403	<b>6,969</b>
	4.00%	¢	8,471	<b>7,945</b>	7,466
	4.50%	¢	<b>9,116</b>	8,538	8,011

The minimum value of the obligation (¢6,969) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and the discount rate is the highest (9.68%). The maximum value of the obligation (¢9,116) occurs in the opposite case. The calculated value of ¢7,945 is at the mid-range of this sensitivity analysis.

As of December 31, 2017, the average retirement period was 18 years, the average employee seniority was 17.2 years, and the average age 43.6 years.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
Balance at January 1	¢	593	623
Current service cost		193	173
Interest cost		46	50
Actuarial (gain) loss		(273)	3
(Gain) loss on severance benefits		-	43
Benefits paid		-	(143)
Severance benefits provision		(151)	(156)
<b>Defined benefit obligation at the end of the year</b>	<b>¢</b>	<b>408</b>	<b>593</b>

Actuarial assumptions

The main actuarial assumptions are as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Nominal discount rate	10.02%	8.82%
Expected salary increase rate	3.90%	4.50%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3.00%	4.00%

Regarding the actuarial assumptions used in the calculation of the obligations, it is worth noting that:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- i. The nominal discount rate was determined through the source BCCR, observing the expected performance of government bonds over the average term when employees will receive the benefit, adjusted for the decreases to which they are exposed.
- ii. The long-term inflation agrees with the target inflation rate established by BCCR in its macroeconomic report for 2017-2018. Since BCCR's goal is macroeconomic stability, it was assumed that this goal will be stable for future periods.
- iii. The salary increase rate was obtained through an analysis of the salary information for the last four years (2014, 2015, 2016 and 2017) for current active employees.
- iv. For purposes of the sensitivity analysis presented below, an increase (decrease) of 0.5% in the base value of the variables is considered to understand the impact of such variation on results. This percentage variation was discussed and accepted by management.

			<u>As of December 31, 2017</u>		
			<u>Discount rate variation</u>		
			<u>9.52%</u>	<u>10.02%</u>	<u>10.52%</u>
Salary increase rate	3.40%	¢	404	369	<b>340</b>
	3.90%	¢	450	<b>409</b>	373
variation	4.40%	¢	<b>504</b>	455	414

The minimum amount of the obligation (¢340) occurs if the salary increase rate is the lowest in the sensitivity range (3.40%) and the discount rate is the highest (10.52%). The maximum amount (¢504) occurs in the opposite case. The calculated amount of ¢409 is at the mid-range of this sensitivity analysis.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

			<b>As of December 31, 2016</b>		
			<b>Discount rate variation</b>		
			<b>8.32%</b>	<b>8.82%</b>	<b>9.32%</b>
Salary increase rate variation	4.00%	¢	588	533	<b>483</b>
	4.50%	¢	655	<b>594</b>	539
	5.00%	¢	<b>730</b>	661	600

The minimum amount of the obligation (¢483) occurs if the salary increase rate is the lowest in the sensitivity range (4,00%) and the highest discount rate is the highest (9.32%). The maximum amount (¢730) occurs in the opposite case. The calculated amount of ¢594 is at the mid-range of this sensitivity analysis.

As of December 31, 2017, the average retirement period was 27 years, the average employee seniority was 7.2 years, and the average age 34.1 years.

**Note 22. Accounts payable**

Accounts payable are as follows:

		<b>As of December 31,</b>	
		<b><u>2017</u></b>	<b><u>2016</u></b>
			<b>(Restated)*</b>
Materials suppliers	¢	41,888	57,373
Taxes		14,655	15,940
Other creditors		50,407	62,096
<b>Total</b>		<b>106,950</b>	<b>135,409</b>
<b>Less reclassification of non-current portion</b>	¢	<b>(8,564)</b>	<b>(9,241)</b>
<b>Current</b>	¢	<b>98,386</b>	<b>126,168</b>

(\*) See note 40.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 23. Prepaid income**

Prepaid income, both current and non-current, is as follows:

		As of December 31,			
		2017		2016	
		Non-current	Current	Non-current	Current
Prepaid mobile services (1)	¢	-	5,860	-	5,443
Government grants (2)		7,008	307	6,071	307
Transfer of spare parts - materials (3)		-	9,398	-	8,958
Other		-	2,796	-	1,490
<b>Total</b>	¢	<b>7,008</b>	<b>18,361</b>	<b>6,071</b>	<b>16,198</b>

The nature of the main prepaid income booked by Grupo ICE 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 income and expenses are recognized in the consolidated statement of income and expenses as the end users use up the services.

(2) Government grants:

Within the framework of the Japanese initiative known as Cool Earth Partnership, the Government of Japan donated an amount of approximately 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. Local or international government grants are recognized by Grupo ICE in the consolidated statement of financial position when they are granted, and they are transferred to the consolidated statement of income and expenses systematically according to the useful life of the asset related to the grant received.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Additionally, funds from the Management Trust of the Projects and Programs of Fondo Nacional de Telecomunicaciones (FONATEL) [National Telecommunications Fund] are booked. The funds are aimed at directly subsidizing the voice and broadband internet services rendered to Public Service Centers in the specific service area determined.

(3) Transfer of spare parts - materials:

This transfer in favor of Grupo ICE corresponds to costs related to spare parts, assets, and tools required for maintenance of the Toro III and Garabito Power Plants, on which ICE made no expenditure. This income is realized in the consolidated statement of income and expenses when the contractually established maintenance services are rendered and inventories assigned to ICE are used.

**Note 24. Other provisions**

Other provisions are as follows:

		As of December 31,	
		2017	2016
			(Restated)*
Litigation provision (note 43)	¢	1,849	2,708
Provision for mobile terminal warranties		1,794	1,970
<b>Total</b>		<b>3,643</b>	<b>4,678</b>
<b>Less: current portion</b>		<b>(3,034)</b>	<b>(4,446)</b>
<b>Other non-current provisions</b>	¢	<b>609</b>	<b>232</b>

(\*) See note 39.

Movement in these provisions is as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2017			
	Litigation provision	Provision for mobile terminal warranties	Total
Opening balance	¢ 2,708	1,970	4,678
Provisions made during the year - operation	(859)	927	68
Provisions used during the year	-	(1,103)	(1,103)
<b>Total</b>	<b>¢ 1,849</b>	<b>1,794</b>	<b>3,643</b>

As of December 31, 2016			
	Litigation provision	Provision for mobile terminal warranties	Total
Opening balance	¢ 3,735	1,332	5,067
Provisions made during the year - investment	1,924	-	1,924
Provisions made during the year - operation	255	638	893
Provisions used during the year	(3,206)	-	(3,206)
<b>Total</b>	<b>¢ 2,708</b>	<b>1,970</b>	<b>4,678</b>

**Note 25. Other liabilities**

Other liabilities are as follows:

As of December 31,		
	2017	2016
		(Restated)*
Security deposits (1)	¢ 52,611	52,771
Deposits from private individuals or companies	10,358	7,503
Valuation of financial instruments	4,344	10,006
Obligations derived from credit	158	158
Deferred tax	1,528	1,574
<b>Total</b>	<b>68,999</b>	<b>72,012</b>
<b>Less reclassification of non-current portion</b>	<b>¢ (52,610)</b>	<b>(52,772)</b>
<b>Current</b>	<b>¢ 16,389</b>	<b>19,240</b>

(\*) See note 39.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The balance of security deposits in the amount of ¢52,610 (2016: ¢52,771) corresponds mainly to ¢23,541 (2016: ¢22,762) 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 ¢28,397 (2016: ¢29,182) from the Telecom Segment, corresponding to deposits requested from customers to guarantee the rendering of services, for mobile telephony, fixed telephony, and roaming.

**Note 26. Accrued employer obligations payable**

Accrued employer obligations payable are as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
			<b>(Restated)*</b>
Vacation	¢	19,770	19,304
Statutory Christmas bonus		1,930	1,733
Back-to-school bonus		21,119	20,684
Occupational hazard insurance		92	485
Compensation for payroll downsizing		8	8
<b>Subtotal</b>	<b>¢</b>	<b>42,919</b>	<b>42,214</b>
Payroll and employee withholdings		9,309	7,752
<b>Total</b>	<b>¢</b>	<b>52,228</b>	<b>49,966</b>

(\*) See note 39.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Movement in accrued employer obligations payable is as follows:

	Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly salary	Occupational hazard insurance	Compensation for payroll downsizing	Total
<b>2017</b>							
Opening balance	¢ 19,304	1,733	20,684	-	485	8	42,214
Provisions made during the year - investment	5,181	9,659	3,453	9,711	1,521	-	29,525
Provisions made during the year - operation	15,589	17,728	18,233	-	-	-	51,550
Provisions used during the year	(20,304)	(27,190)	(21,251)	(9,711)	(1,914)	-	(80,370)
<b>Total</b>	¢ 19,770	1,930	21,119	-	92	8	42,919
	Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly salary	Occupational hazard insurance	Compensation for payroll downsizing	Total
<b>2016</b>							
Opening balance	¢ 19,906	2,102	22,144	-	8,862	-	53,014
Provisions made during the year - investment	6,768	10,182	3,710	8,489	2,957	878	32,984
Provisions made during the year - operation	15,486	17,411	17,631	-	-	-	50,528
Provisions used during the year	(22,856)	(27,962)	(22,801)	(8,489)	(11,334)	(870)	(94,312)
<b>Total</b>	¢ 19,304	1,733	20,684	-	485	8	42,214

The back-to-school bonus is accrued during the year and paid to employees in January of each year.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Memoranda accounts are as follows:

	As of December 31,	
	2017	2016 (Restated)*
<b>Guarantees received:</b>		
Performance bonds (1)	¢ 170,370	146,357
Collection agents (2)	4,487	3,762
Bid bonds (3)	759	559
Tenders	8	8
Security deposits	404	178
Maximum demand	6,280	5,909
<b>Subtotal guarantees received</b>	<b>182,308</b>	<b>156,773</b>
<b>Other guarantees received - sundry services</b>	<b>1,926</b>	<b>1,949</b>
<b>Credit memoranda accounts - other - performance bonds</b>	<b>1,684</b>	<b>1,522</b>
<b>Assets in consignment</b>	<b>130</b>	<b>34</b>
<b>Contingent assets:</b>		
Guarantee and Savings Fund	29,936	28,756
CNFL Employees Association (ASEFYL)	14,296	13,549
Performance bonds - procurement	1,902	2,323
Materials in transit	2,494	1,624
Bid bonds	848	834
Collection of electricity services	1,178	1,131
Materials loan	126	63
Employee guarantees	67	46
Rental of posts	205	785
Performance bonds - labor contracts	151	19
Security deposits (electricity consumption)	361	266
Valle Central Wind Power Plant	83	81
CNFL performance bonds	861	840
<b>Subtotal contingent assets</b>	<b>52,508</b>	<b>50,317</b>
<b>Contingent liabilities:</b>		
Payment arrangements - financing of appliances	157	144
<b>Total</b>	<b>¢ 238,713</b>	<b>210,739</b>

(\*) See note 39.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The nature of memoranda accounts is described below:

(1) Performance bonds

Performance bonds correspond to bonds issued to guarantee that the goods and services offered by a supplier will be delivered or rendered to Grupo ICE in accordance with the agreed terms and that, in the event of non-compliance, 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.

**Note 28. Operating income**

Regulation of electricity services

The *Law on the Costa Rican Public Service Regulatory Authority* (ARESEP) (Law No. 7593) of August 9, 1996 establishes that "ARESEP will set prices and rates and will enforce compliance with standards of quality, quantity, reliability, continuity, timeliness, and optimum rendering 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)

On March 19, 2012, through Decision RJD-017-2012 published in Official Gazette No. 74 dated April 17, 2012, the Regulatory Committee published the methodology for the extraordinary adjustment of electricity rates related to fuel expenses, based on the variable fuel cost (Costo Variable de Combustible, CVC) methodology. ARESEP applied this methodology starting January 1, 2013.

This methodology allows for a faster recovery of the difference between the estimated and actual prices of fuel for thermal power generation, given that it involves a quarterly review in order to make the necessary adjustments to the rate schedules to be applied in the following quarter.

Regulation of telecom services

Article 50 "Prices and rates" of the *General Telecommunications Law* (Law No. 8642.) dated May 14, 2008 states that "rates for public telecommunications services shall initially be set by SUTEL using the price ceiling methodology or any other system that promotes competition and the efficient use of resources, in accordance with the guidelines, procedures, and frequency defined in regulations."

Through Decision No. RSC-295-2012, SUTEL authorizes operators to modify the modality under which prepaid mobile internet data transfer services are charged. Moreover, as published in Official Gazette dated April 25, 2013, SUTEL excluded information services (multimedia messaging, text messaging, and video calling) from the current rate schedule, granting operators authority to review and adjust the rates applicable to such services.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 29. Operation and maintenance costs**

Operation and maintenance costs are as follows:

		For the year ended December 31,	
		2017	2016 (Restated*)
Depreciation of operating assets	¢	261,684	267,629
Salaries		106,442	96,091
Use of service centers		59,585	50,291
Services		47,546	55,043
Materials and supplies (1)		19,228	17,976
Other		23,302	16,300
<b>Subtotal</b>		<b>517,787</b>	<b>503,330</b>
(**) Elimination of internal consumption of services		(4,895)	(4,526)
<b>Total</b>	¢	<b>512,892</b>	<b>498,804</b>

(\*) See notes 39 and 40.

(\*\*) Internal consumption of electricity and telephone services by the different areas of ICE.

**Note 30. Operation and maintenance of leased equipment**

Operation and maintenance costs of leased equipment are as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		For the year ended	
		December 31,	
		2017	2016
			(Restated)*
Services	¢	76,570	72,943
Depreciation of operating assets		14,341	2,370
Use of service centers		3,884	1,514
Salaries		3,433	2,792
Materials and supplies (1)		2,501	11,870
Other		2,051	2,123
<b>Subtotal</b>		<b>102,780</b>	<b>93,612</b>
(**) Elimination of internal consumption of services		(1,679)	(1,818)
<b>Total</b>	¢	<b>101,101</b>	<b>91,794</b>

(\*) See notes 39 and 40.

(\*\*) Internal consumption of electricity and telephone services by the different areas of ICE.

(1) Includes fuel costs in the amount of ¢1,972 (2016: ¢11,421).

The cost incurred in operating leases related to power plants amounts to ¢70,184 (2016: ¢69,059).

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Lease agreements on telecommunications equipment, transmission equipment, and power plants are booked and classified as operating leases, as follows:

General characteristics of the agreement															
Service order No.	Lessor	Date of agreement	Starting date	Approximate expiration date	Amount of agreement	Total paid	In millions of US dollars				Frequency	Purpose of the agreement			
							Balance as of December 31, 2017	Paid in 2017	No. of installments	Lease amount					
Expense booked in 2017															
Expense booked in 2016															
No order No.	Carabito Thermal Power Plant Trust (1)	5-Nov-07	1-Jul-10	31-Mar-22	743	481	262	63	142	5	213	34,414	33,868	Monthly	Lease of Carabito Thermal Power Plant
No order No.	Carablanco Securitization Trust (1)	16-Aug-00	29-Feb-08	31-Dec-19	304	255	50	25	147	2	8	13,880	13,456	Monthly	Lease of Carablanco Hydroelectric Power Plant
333059	Las Pailas Geothermal Power Plant (2)	7-Mar-07	28-Mar-12	31-Dec-23	240	107	134	18	24	8	-	9,877	9,818	Half-yearly	Lease of Las Pailas Geothermal Power Plant
No order No.	Toro III Power Plant Trust (1) and (4)	1-Jun-13	30-Jun-13	30-Nov-24	131	44	87	9	142	\$1	-	5,254	5,082	Monthly	Lease of Toro 3 Power Plant
351643	Administrative Board of the Municipal Electric Service of Cartago (JASEC) (3)	14-Apr-10	4-Dec-13	14-Apr-22	25	11	14	2	20	Between US\$1,637 and US\$854 (in thousands)	-	1,255	1,311	Half-yearly	Infrastructure for Tejar Step-Down Substation/Easements and expansion tower sites for Rio Macho Transmission Line
Subtotal operating leases - US dollars					US\$	1,443	898	547	117	64,680 63,515					
General characteristics of the agreement															
In millions of colones															
350702	Cooperativa de Electrificación Rural Guanacaste (5)	16-Feb-10	6-Apr-10	6-Sep-21	87,848	46,001	41,847	5,504	138	Variable between €617 and €473	Approximately €3,541	5,504	5,544	Monthly	Infrastructure for Liberia, Papagayo - Nuevo Cohn Transmission Line
Subtotal operating leases - colones					€	87,848	###	41,847	5,504	5,504 5,544					
Total operating leases					70,184 69,059										

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The main operating lease agreements held by Grupo ICE are as follows:

(1) Securitization Trusts

ICE, BCR, and Banco Nacional de Costa Rica subscribed securitization trust agreements whereby ICE acts as the trustor and beneficiary and the corresponding banks act as trustees. These trusts were created with the goal of independently generating and managing the necessary financial resources to build the Cariblanco and Toro III Hydroelectric Power Plants and the Garabito Thermal Power Plant. These plants will be part of the equity of the trusts (trust assets), and once their construction is completed, they will be leased to ICE for terms ranging from 11 to 15 years. At the end of the lease terms, ICE may exercise the purchase option established in each lease agreement.

The trusts may obtain the funds necessary to build the aforementioned power plants by acquiring commercial loans and by issuing, placing, and managing securities through securitization.

The trusts hire ICE to build the aforementioned plants, given its experience in the development of this type of projects.

The main clauses of the trust agreements are summarized below:

- The purpose of the agreements is to create trusts to generate and manage the necessary resources for development of the projects, serve as vehicles to create autonomous equity that will be used in a securitization process, and obtain the necessary resources to finance the project.
- Trust assets will comprise the following:
  - a) The liquid assets generated by the trusts from the issue and placement of debt securities.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- b) The trustor's movable property and tangible and intangibles assets (deemed essential to the agreement's purposes) transferred in trust; civil works; equipment; facilities; repair shops; vehicles; equipment and materials; office and computer equipment (including software, documents, licenses, and other assets acquired with trust funds to develop the projects and to operate and provide maintenance to the plants); rights to use the land owned by the trustor as required to develop the projects; and all written information and studies conducted for and during the development of works managed by the trusts.
  - c) The agreed-upon income from the lease of power plants.
  - d) Any other income obtained by the trusts in the normal course of business.
- Trust assets may only be used by the trustee as expressly stipulated in the trust agreements and according to the instructions of the trustor. The trustee's right of disposal of the trust assets and the trustor's right to issue instructions concerning such assets are limited to actions that are strictly necessary to comply with the purpose of the trust agreement.
  - The trust's financial policy will be to allocate the resources obtained from the securitization process and from temporary investments to the construction of the projects, debt servicing, and covering the trust's operating costs. Upon compliance with such obligations, all of the trust assets will become the property of the trustor ipso jure.
  - The trustor will appoint the Manager of the Executing Unit, who must be accepted by the trustee (the Manager's hierarchical superior), with all the corresponding rights and responsibilities.
  - The trustor and the trustee agree that ICE will be contracted by the trust through a construction and engineering agreement to undertake construction of the projects.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- Upon expiration of the trust agreements, all of the trust assets, without exception, delay, or condition, will be automatically transferred ipso jure to the trustor, who will become the legitimate owner.

Upon completion of the construction of the power plants, ICE subscribed the lease agreements on those assets, which were classified and booked as operating leases. Some of the main clauses included in those lease agreements are as follows:

- The lease agreements seek to regulate the relationship of the lease on the Cariblanco and Toro III Hydroelectric Power Plants, and the Garabito Thermal Power Plant.
- For purposes of these lease agreements, the corresponding securitization trusts are the lessors and ICE is the lessee. In the specific case of the Securitization Trust of the Toro III Hydroelectric Power Plant, the lessees are ICE and JASEC, in conformity with an alliance established between ICE and that institution (see item No. 4 of Toro III Hydroelectric Power Plant).
- The monthly lease amount is determined by applying a formula that considers, among other variables, the capitalized cost of the asset (i.e. the cost of the power plant). The lease amount is determined in US dollars.
- The lessee may unilaterally request early termination of the lease agreement. The lessee shall communicate this in writing three months in advance. In the event of early termination of the lease agreement, the lessee must pay any outstanding obligation, as well as an amount (comparable to a penalty clause) equivalent to 12, 6, or 3 monthly lease payments, depending on the time elapsed from the inception of the lease agreement to its early termination.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- As lessee, ICE shall be in charge of operation of the plant. Accordingly, ICE assumes responsibility for any damages to the plant's facilities resulting from its operation and maintenance.
- At the end of the lease term, the lessee may exercise the purchase option on the leased asset. The value of the purchase option is determined using a formula that considers, among other variables, the capitalized cost of the asset (i.e. the cost of the plant).

(2) Las Pailas Geothermal Power Plant

In December 2006, ICE's board of directors approved the development of the Las Pailas Geothermal Project under a "non-traditional" execution-financing structure, whereby ICE acts as the builder and CABEL as the investor, developer, and owner.

Subsequently, ICE, as the lessee, will be responsible for the technical and commercial operation of the infrastructure for a 12-year term, at the end of which ICE may exercise a purchase option for the plant.

In March 2007, ICE and CABEL subscribed a lease agreement with a purchase option on the Las Pailas Geothermal Power Plant. The main clauses of the lease agreement are summarized below:

- The lease will be for a term of 12 years with a purchase option on the Las Pailas Geothermal Project, starting from the date of satisfactory receipt of the plant by ICE.
- The total amount of the lease is US\$240 million, including lease installments and maintenance fees.
- At the end of the lease term, the amount of the purchase option will be equivalent to 15% of the total cumulative investment made at the end of the construction phase.
- CABEL will make an investment of US\$130 million for the construction of the plant.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- CABEI agrees that ICE will carry out the construction of the entire plant and its interconnection to the National Interconnected System. The total cumulative investment at the end of the construction phase will have been made in US dollars, composed of the following:
    - a) Actual cumulative direct investments made by CABEI for construction of the plant;
    - b) 0.75% (one time only) of CABEI's direct investment at the time CABEI makes the first disbursement of the direct investment;
    - c) 0.75% of the estimated direct investment that has not yet been used for construction of the plant;
    - d) Return calculated at the 6-month LIBOR rate plus 2.25% on the partial cumulative investment made during construction of the plant;
    - e) Administrative expenses derived from creation and operation of the Project Management Unit to be set up by CABEI in accordance with the agreement.
  - ICE agrees to lease the plant and act as the lessee. CABEI will be the lessor.
  - The term of the lease will start 48 months after the beginning of the construction of the plant.
  - Should ICE decide not to exercise the purchase option, the parties may agree to extend the lease agreement for up to six years, which will require an extension to the agreement. ICE may exercise the purchase option prior to expiration of the agreement for an amount equivalent to CABEI's investment not yet recovered.
- (3) Tejar Step-down Substation - JASEC

In April 2010, ICE and JASEC subscribed a lease agreement with a purchase option on the Tejar Step-down Substation, as well as easements and sites for towers for the expansion of the Río Macho del Este Transmission Line to 230 kW. ICE acts as the lessee and JASEC as the lessor. The works are located in the San Isidro district, El Guarco canton, Cartago.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The term of the lease is 10 years from the date on which JASEC delivers the substation and related works to ICE in the conditions required to start commercial operations (June 4, 2012).

(4) Toro III Hydroelectric Power Plant

ICE and JASEC subscribed a partnership agreement for the joint development of the Toro III Hydroelectric Power Plant, whereby BCR acts as the trustee and ICE and JASEC as trustors.

The partnership agreement involved the subscription of a 137-month lease agreement with a purchase option on the Toro III Hydroelectric Power Plant, whereby ICE and JASEC act as lessees and the Toro III Hydroelectric Power Plant Securitization Trust as the lessor (see note 8).

The partnership agreement subscribed by ICE and JASEC involves equal participation in the rights, obligations, and benefits derived from the construction and commercial exploitation of the Toro III Hydroelectric Power Plant over its useful life. Both entities will participate in the development of the power plant, and each will hold a 50% ownership interest (see note 10).

(5) Cooperativa de Electrificación Rural Guanacaste, R.L. (Coopeguanacaste)

On February 16, 2010, ICE and Cooperativa de Electrificación Rural de Guanacaste, R.L. (Coopeguanacaste) subscribed a lease agreement with a purchase option on the infrastructure of the Liberia-Papagayo-Nuevo Colón (L-P-NC) power transmission line. ICE acts as lessee and Coopeguanacaste as lessor. The term of the agreement is 137 months and monthly lease payments are as follows:

- monthly payments in colones that the lessor must make to its creditors (BCR and Banco Popular y de Desarrollo Comunal as a result of the loans granted to Coopeguanacaste), and
- amounts payable by the lessor for monthly infrastructure maintenance costs.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 31. Supplemental services and purchases**

Supplemental services and purchases are as follows:

	For the year ended December 31,	
	2017	2016
<b>Telecommunications:</b>		
National traffic operators	¢ 21,980	23,126
Use of infrastructure of other companies	3,264	4,663
Other	8,569	4,749
<b>Total telecommunications</b>	<b>33,813</b>	<b>32,538</b>
<b>Electricity:</b>		
<b>Import:</b>		
Regional Operating Entity (EOR)	2,180	8,718
Other	7	4,522
<b>Subtotal</b>	<b>2,187</b>	<b>13,240</b>
<b>Independent power producers: (1)</b>		
Proyecto Hidroeléctrico Chucás, S.A. (BOT agreement)	15,286	-
Unión Fenosa Generadora Torito (BOT agreement)	13,566	14,296
Consorcio Eólico Chiripa, S.A. (BOT agreement)	10,608	15,044
Unión Fenosa Generadora La Joya, S.A. (BOT agreement)	9,659	13,040
Planta Eólica Orosi, S.A. (BOT agreement)	9,304	12,091
Hidroenergía Del General (HDG), S.R.L. (BOT agreement)	8,710	10,189
Eólicas Guanacaste S.A.	6,505	10,350
Hidroeléctrica Doña Julia, S.A.	4,532	5,683
Inversiones Eólicas Campos Azules S.A.	3,957	-
Hidroeléctrica Platanar, S.A.	3,710	4,452
Planta Eólica Guanacaste, S.A. (BOT agreement)	3,620	0
Fila de Mogote	3,597	824
Planta Eólica Tilawind, S.A.	3,223	4,150
Azucares el Viejo, S.A.	3,109	2,842
Proyecto Hidroeléctrico Río Volcán, S.A.	2,863	3,372
Proyecto Hidroeléctrico Pedro, S.A.	2,678	3,078
Hidroeléctrica Río Lajas, S.A.	2,538	3,028
Planta El Angel, S.A.	2,512	1,697
Plantas Eólicas, S.A.	2,501	3,739
Ingenio Taboga, S.A.	2,140	2,238
Molinos de Viento Del Arenal, S.A.	2,104	3,516
Planta Eolica Vientos del Este, S.A.	1,938	2,115
Other	7,926	8,389
<b>Subtotal</b>	<b>126,586</b>	<b>124,133</b>
<b>Purchases for export:</b>		
Regional Operating Entity (EOR)	9,921	10,304
<b>Total electricity</b>	<b>138,694</b>	<b>147,677</b>
<b>Total</b>	<b>¢ 172,507</b>	<b>180,215</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(1) Independent power producers:

ICE executed agreements with several independent power producers for the purchase of electricity pursuant to the *Law Authorizing the Autonomous or Parallel Generation of Electricity* (Law No. 7200), which declares the purchase of electricity by ICE from private companies that meet the conditions established in that law to be a matter of public interest. This law provides for two systems or chapters: Chapter I *Autonomous or Parallel Generation* and Chapter II *Purchase of Power under the Competition System*, which give rise to BOO (Build, Own, and Operate) and BOT (Build, Operate, and Transfer) agreements, respectively.

As of December 31, 2017, Grupo ICE has subscribed seven power purchase agreements under Chapter II that correspond to BOT agreements with the following independent power producers: Unión Fenosa Generadora La Joya, S.A.; Hidroenergía del General (HDG), S.R.L.; Planta Eólica Guanacaste, S.A., Consorcio Eólico Chiripa, S.A., Unión Fenosa Generadora Torito, S.A., Eólicas de Orosí Dos, S.A., and PH Chucás, S.A. During the term of the agreements, those independent power producers must build, operate, and provide maintenance to the corresponding plants. The electricity generated will be sold exclusively to ICE. At the end of the term of those agreements, the ownership, management, and operation of the power plants will be automatically transferred to ICE, free of any liens and encumbrances. The corresponding independent power producers or ICE may request the early transfer of the power plants.

Some of the most significant terms and conditions established in the aforementioned agreements are as follows:

- The independent power producers will be responsible for the financing, design, purchase of supplies, construction, tests, start-up of operations, and maintenance of the plants. The independent power producers also agree to deliver all of the electricity generated during the term of the agreement subscribed with Grupo ICE.
- The independent power producers will generate electricity in accordance with the operating standards and quality established in each agreement and will deliver all of the electricity generated to ICE, except for the electricity required to feed the auxiliary equipment and to operate the plants, in accordance with the agreements.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- The independent power producers assume the risks of damages to, loss, or destruction of equipment and facilities during the term of the agreements due to any reason or cause that is directly attributable to the independent power producer, its contractors, subcontractors, or suppliers, excluding force majeure.
- The purchase price for electricity generated is established in each agreement based on the bid price and the price awarded in the corresponding tender processes. The agreements include formulas for price adjustments corresponding to inflation rates that are applied to operating and maintenance costs.

Once the plants launch commercial operations, the independent power producers must obtain and maintain, at their own expense, a minimum of the following insurance policies, based on market availability: occupational hazard and all-risk insurance for physical loss.

Grupo ICE may suspend the delivery of energy from the independent power producers and shall be released from the payment of electricity during the suspension period for the following reasons:

- alteration of meters
- failure to meet the agreed point-of-delivery condition that is the responsibility of the independent power producer
- inability of the independent power producer to supply electricity in accordance with the stipulated operating parameters
- failure to renew performance bonds
- failure to renew insurance policies.

The current agreements are in effect for terms that range between 15 and 20 years and expire between December 2016 and March 2035.

For independent power producers who have subscribed agreements under Chapter I of Law No. 7200, the following three types of agreements are in effect:

- Class A: Applicable to hydroelectric power plants with a power output of less than 5 MW
- Class B: Applicable to hydroelectric power plants with a power output greater than 5 MW and
- Class C: Applicable to wind power generation plants.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The general terms of these agreements establish that, during the term of the agreement, ICE will purchase any surplus electricity that the independent power producer may supply once its own energy needs are met, up to the maximum power output agreed. The independent power producer commits to operate the plant so that the power output delivered to ICE at the point of measurement does not exceed the power output agreed.

ICE will not make any payments for the electricity delivered by the independent power producer exceeding the maximum power output agreed. Electricity received in light of these agreements is paid at the rates in effect set by ARESEP upon delivery.

Since enactment of Law No. 7200 in 1990, Grupo ICE subscribed agreements in accordance with Chapter I of that law. Starting 2009, after the expiration of the agreements subscribed in the 1990s, for which the maximum maturity terms were 15 years, Grupo ICE renewed such agreements for the remaining term of the concession agreements (20 years). Currently, agreements are being renewed when companies are awarded concessions to use water for hydroelectric power generation and concessions awarded by ARESEP to offer public electricity generation services. New plants are being incorporated, with agreements subscribed as a result of the tenders made in 2012 and 2014. Currently, agreements are subscribed with 28 companies, i.e. eight wind power, two sugar refineries, and 18 hydroelectric power agreements.

Additionally, starting in 2012, once the rates for new plants were published by ARESEP and the new regulations to Chapter I of Law No. 7200 were also published, Grupo ICE started the process of selection of projects for which new agreements were to be signed. Through Call for bids No. 01-2012 published in June 2012, five wind and six hydroelectric projects were selected, and agreements were subscribed with the wind power projects Tilawind, Campos Azules, and Altamira in Tilarán and Vientos de la Perla and Vientos de Miramar in Liberia, which began operations between the first quarter of 2015 and the first quarter of 2017. Of the hydroelectric projects, an agreement was signed only with El Ángel Ampliación, and it is currently in operation.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Call for bids No. 02-214 was published in February 2014, and its result was confirmed on August 29 once General Management rejected the appeal filed by one of the participants. Through this second call for bids, two wind and four hydroelectric projects were selected, of which one refused the selection. In December 2015, the Vientos del Este Wind Power Plant began operations and generates 9 MW. In July 2016, Mogote Wind Power Plant began operations and generates 20 MW. The agreements for the hydroelectric projects were subscribed during the second half of 2017.

Rate adjustments for independent power plants

Ruling RIE 027-2015 dated March 13, 2015 was published in the Official Gazette on March 19, 2015, which authorized the rate setting for the new wind power plants, in conformity with the “Model to determine reference rates for new independent wind power plants”.

Ruling RIE 124-2015 dated December 11, 2015 was published in the Official Gazette on December 16, 2015, which authorized the rate setting for the company Hidroeléctrica Platanar, S.A. and the rest of existing independent hydroelectric and wind power producers, in conformity with the “Rate setting methodology for independent power producers (Law No. 7200)” that subscribe new electricity purchase agreements with Grupo ICE.

Ruling RIE 099-2016 dated November 17, 2016 was published in the Official Gazette on November 22, 2016, which authorized the rate setting for biomass plants (bagasse), in conformity with the “Rate setting methodology according to the typical cost structure of a model plant for electricity generation with sugarcane bagasse for sale to ICE and indexation formula.”

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 32. Administrative expenses**

Administrative expenses are as follows:

		For the year ended December 31,	
		2017	2016 (Restated)*
Salaries	¢	67,038	67,600
Services		10,925	18,279
Use of service centers		12,169	7,440
Current transfers		1,992	867
Depreciation of other operating assets		1,396	1,569
Other		24,056	10,928
<b>Subtotal</b>		<b>117,576</b>	<b>106,683</b>
(**) Elimination of internal consumption of services		(148)	(166)
<b>Total</b>	¢	<b>117,428</b>	<b>106,517</b>

(\*) See notes 39 and 40.

(\*\*) Internal consumption of electricity and telephone services by the different areas of ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 33. Selling expenses**

Selling expenses are as follows:

		For the year ended	
		December 31,	
		2017	2016
			(Restated)*
Materials and supplies	¢	66,432	65,346
Salaries		55,520	55,749
Services		45,978	50,775
Use of service centers		21,561	21,549
Current transfers		6,769	6,365
Depreciation of other operating assets		3,969	3,918
Other		34,530	30,220
<b>Subtotal</b>		<b>234,759</b>	<b>233,922</b>
(**) Elimination of internal consumption of services		(354)	(443)
<b>Total</b>	¢	<b>234,405</b>	<b>233,479</b>

(\*) See notes 39 and 40.

(\*\*) Internal consumption of electricity and telephone services by the different areas of ICE.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 34. Pre-investment studies**

Costs incurred in pre-investment studies are as follows:

		For the year ended December 31,	
		2017	2016 (Restated)*
Use of service centers	¢	2,836	4,067
Services		210	342
Other		319	747
<b>Total</b>	<b>¢</b>	<b>3,365</b>	<b>5,156</b>

(\*) See notes 39 and 40.

**Note 35. Preliminary studies**

Expenses incurred in the preliminary phases of projects, when it is not known whether they will be implemented, are booked as preliminary studies. This includes activities related to the identification and pre-feasibility of potential projects or works to be built.

Expenses incurred in preliminary studies are as follows:

		For the year ended December 31,	
		2017	2016 (Restated)*
Salaries	¢	10,962	10,750
Use of service centers		6,520	8,882
Services		1,100	1,446
Current transfers		796	829
Depreciation of other operating assets		143	140
Materials and supplies		37	56
Other		1,447	1,341
<b>Subtotal</b>		<b>21,005</b>	<b>23,444</b>
(**) Elimination of internal consumption of services		-	(2)
<b>Total</b>	<b>¢</b>	<b>21,005</b>	<b>23,442</b>

(\*) See note 39.

(\*\*) Internal consumption of electricity and telephone services by the different areas of ICE

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 36. Supplemental operating expenses**

Expenses incurred by Grupo ICE to ensure the quality of the construction and operation of works owned by third parties and transactions that are not part of the cost and expense items in accordance with their nature are recognized as "Supplemental operating expenses". Additionally, this item includes subsequent mitigation and social compensation costs that exceed the amounts established in the Environmental Management Plan and were not included in the "Baseline" planned and controlled by Grupo ICE. Other operating expenses are as follows:

		For the year ended December 31,	
		2017	2016
Use of service centers	¢	945	-
Salaries		742	680
Materials and supplies		342	530
Other		1,709	8,376
<b>Subtotal</b>		<b>3,738</b>	<b>9,586</b>
* Elimination of internal consumption of services		(38)	(24)
<b>Total</b>	¢	<b>3,700</b>	<b>9,562</b>

(\*) Internal consumption of electricity and telephone services by the different areas of ICE.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 37. Other income**

Other income is as follows:

	For the year ended December 31,	
	2017	2016 (Restated)*
Construction services (1)	11,037	13,495
Other (2)	45,992	38,893
<b>Total other income</b>	<b>¢ 57,029</b>	<b>52,388</b>

(\*) See notes 39 and 40.

The description of the accounts is as follows:

- (1) This item includes invoices for percentage of completion or completed works related to agreements subscribed for engineering, design, construction, or other specialized services provided by Grupo ICE to third parties for projects under construction. The costs related to these construction agreements are booked under "Agreements for civil and electromechanical works".
- (2) During the year ended December 31, 2017, Grupo ICE recognized other operating income from:
  - general income in the amount of ¢8,291 (2016: ¢6,382)
  - income from payment of fine in the amount of ¢6,511 (2016: ¢1,628)
  - collection of administrative penalties in the amount of ¢4,891 (2016: ¢6,318)
  - Workshop and structure services in the amount of ¢4,321 (2016: ¢3,764).

Other expenses are as follows:

	For the year ended December 31,	
	2017	2016
Construction of civil and electromechanical works	17,495	17,664
Other	7,051	4,762
<b>Total other expenses</b>	<b>¢ 24,546</b>	<b>22,426</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 38. Finance income and finance costs**

Finance income and finance costs are as follows:

		For the year ended December 31,	
		2017	2016
			(Restated)*
Income from investments (1)	¢	29,511	29,421
Foreign exchange differences, net (2)		(49,955)	(50,913)
Finance costs (3)		(177,780)	(126,521)
Investments in other companies		406	392
<b>Total</b>	¢	<b>(197,818)</b>	<b>(147,621)</b>

(\*) See notes 39 and 40.

A description of the main transactions performed is as follows:

- (1) Interest includes income on foreign securities.
- (2) As a result of transactions in foreign currency, during the year ended December 31, 2017, the valuation of monetary assets and liabilities denominated in foreign currency resulted in the recognition of foreign exchange income and expenses in the amount of ¢5.748 and ¢55.704, respectively (2016: ¢8.498 and ¢59.411, respectively). At year-end, monetary assets and liabilities denominated in foreign currency are valued at the exchange rate of ¢570.49 to US\$1.00 (2016: ¢556.44 to US\$1.00).
- (3) Expenses related to interest and commissions on internal debt securities, external debt securities, and finance leases.

(Continued)

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

**Note 39. Restatement of financial statements**

As indicated in note 6, Grupo ICE is in the process of gradual adoption of IFRS, which has entailed a gradual modification of the accounting policies accepted by the General Directorate of National Accounting, generating adjustments to the financial figures both for the current and prior periods. In addition, during 2017 some errors were identified in the figures reported in prior periods. The following table details the economic effects on prior period figures due to the changes in accounting policies and errors determined, which led to the restatement of previously reported consolidated financial statements. The accounting policies modified that affected the figures for 2017 and prior periods are detailed below. A description of the adjusted errors determined is also provided.

During the year ended December 31, 2017, the accumulated amounts as of December 31, 2016 were restated, incorporating several retrospective adjustments due to the correction of errors and changes in accounting policies. The changes in accounting policies that had an economic impact on the financial figures for the current and prior periods and a description of the errors determined are as follows:

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	Property, plant and equipment, net (note 8)	Intangible assets (note 9)	Equity investments (note 10)	Investments in debt and equity instruments (note 12)	Investments and receivables (note 14)	Prepaid expenses (note 18)	Other assets (note 19)	Actual gain (loss)	Realized earnings (note 20)	Development reserve	Non-controlling interest	Provision for employee benefits (non-current) (note 21)	Other liabilities (non-current) (note 22)	Provision for employee benefits (current) (note 21)	Accrued employer obligations payable (note 26)	Accrued interest payable (note 24)	Other provisions (note 24)	Other liabilities (current) (note 25)	Memoranda accounts (note 27)
Balance as of December 31, 2016, previously reported	4,895,078	52,560	15,604	98,884	96,402	73,025	8,601	(22,187)	64,037	2,514,192	2,393	106,829	56,681	26,650	63,119	22,788	2,476	15,984	204,830
Accumulated effect of changes in accounting policies and adjustments for corrections prior to 2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for changes in accounting policies of mobile terminal warranties and price readjustment (1)	-	-	-	-	-	-	-	-	-	(1,333)	-	-	-	-	-	-	1,333	-	-
Adjustment for changes in accounting policies associated with the disclosure of investment in reinsurance cables (2)	(52,323)	39,229	18,325	-	-	-	-	-	-	5,531	-	-	-	-	-	-	-	-	-
Adjustment for error in the accounting of accrued interest payable of the financial derivative, DBS bank 1998 (3)	-	-	-	-	-	-	-	-	-	1,334	-	-	-	-	-	(1,334)	-	-	-
Change in the accounting policy "Mobile terminal inventory" (4)	-	-	-	-	(4,788)	-	-	-	-	(4,788)	-	-	-	-	-	-	-	-	-
Reversal of actuarial calculations to determine the employee benefits obligation (5)	-	-	-	-	-	-	-	1,858	677	7,250	-	(2,378)	-	(147)	(7,250)	-	-	-	-
Change in the accounting policies due to application of the equity method to joint venture (6)	-	-	(462)	-	-	-	-	-	(462)	-	-	-	-	-	-	-	-	-	-
Total effect of adjustments for changes in accounting policies and corrections prior to 2016	(52,323)	39,229	17,863	-	(4,788)	-	-	1,858	(462)	7,994	-	(2,378)	-	(147)	(7,250)	(1,334)	1,333	-	-
Accumulated effect of changes in accounting policies and adjustments for corrections in 2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for changes in accounting policies of mobile terminal warranties and price readjustment (1)	-	-	-	-	-	-	-	-	-	(637)	-	-	-	-	-	-	637	-	-
Adjustment for changes in accounting policies associated with the disclosure of investment in reinsurance cables (2)	5,599	(4,484)	-	-	-	-	-	-	-	1,115	-	-	-	-	-	-	-	-	-
Change in the accounting policy "Mobile terminal inventory" (4)	-	-	-	-	2,662	(1,282)	-	-	-	1,380	-	-	-	-	-	-	-	-	-
Reversal of actuarial calculations to determine the employee benefits obligation (5)	-	-	-	-	-	-	-	43	336	5,903	-	(402)	-	23	(5,903)	-	-	-	-
Change in the accounting policies due to application of the equity method to joint venture (6)	-	-	211	-	-	-	-	-	211	-	-	-	-	-	-	-	-	-	-
Adjustment for changes in accounting policies for recognition of the adjusted cost of assets in Property, plant and equipment (7)	156,335	-	-	-	-	-	-	-	156,335	-	-	-	-	-	-	-	-	-	-
Adjustment for the difference in the accumulated depreciation account of other operating assets (8)	2,686	-	-	-	-	-	-	-	-	2,686	-	-	-	-	-	-	-	-	-
Adjustment for depreciation of operating assets of the Meravelle and La Paila Geothermal Power Plant (9)	13,849	-	-	-	-	-	-	-	-	13,849	-	-	-	-	-	-	-	-	-
Adjustment to the valuation of the JICA-Southbank financial derivative, November 2016 (10)	-	-	-	-	-	-	-	-	-	(3,682)	-	-	-	-	-	-	-	3,682	-
Adjustment for reclassification of deferred tax (11)	1,574	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,574	-
Change in the accounting policy "Mobile terminal inventory" (4)	-	-	-	-	-	-	-	-	-	-	2,203	-	-	-	-	-	-	-	-
Adjustment for change in accounting policies (13)	2,414	-	(3,258)	-	-	-	-	-	(2,203)	-	(845)	-	-	-	-	-	-	-	-
Total effect of adjustments for changes in accounting policies and corrections in 2016	181,657	(4,484)	(3,547)	-	2,662	(1,282)	-	43	211	154,468	18,869	(402)	-	23	(5,903)	-	637	5,296	-
Subtotal adjustments	129,334	35,045	14,816	-	(2,126)	(1,282)	-	1,901	(251)	155,145	26,963	(2,780)	-	(134)	(13,153)	(1,334)	1,970	5,296	-
Balance as of December 31, 2016, retained	5,025,012	87,605	30,420	98,884	94,276	71,743	8,601	(20,346)	(251)	2,512,137	4,586	104,449	56,681	26,516	49,866	21,454	4,446	19,240	204,830
Accumulated effect of reclassifications in 2016	-	-	11	(11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for reclassification of provisions received in reinsurance demand occasion (14)	-	-	-	-	-	-	(5,909)	-	-	-	-	(5,909)	-	-	-	-	-	-	5,909
Subtotal reclassification	-	-	11	(11)	-	-	(5,909)	-	-	-	-	(5,909)	-	-	-	-	-	-	5,909
Balance as of December 31, 2016, retained	5,025,012	87,605	30,431	98,873	94,276	71,743	2,692	(20,346)	(251)	2,512,137	4,586	104,449	52,772	26,516	49,866	21,454	4,446	19,240	210,739

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
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	Operation and maintenance (note 29)	Operation and maintenance of leased equipment (note 30)	Production management (note 31)	Administrative expenses (note 32)	Selling expenses (note 33)	Preinvestment studies (note 34)	Preliminary studies (note 35)	Supplemental (note 36)	Other expenses (note 37)	Finance costs (note 38)	Income from investments in other companies	Non-controlling interest	Deferred tax	Surplus (deficit), net
Balance as of December 31, 2016, previously reported	€ 508,495	91,938	83,828	106,852	235,586	5,489	24,034	9,570	22,451	122,839	359	251	-	19,433
<b>Accumulated effect of changes in accounting policies and adjustments for corrections in 2016:</b>														
Adjustment for changes in accounting policies of mobile terminal warranties and price readjustment (1)	-	-	-	-	637	-	-	-	-	-	-	-	-	(637)
Adjustment for changes in accounting policies associated with the disclosure of investment in submarine cables (2)	(1,115)	-	-	-	-	-	-	-	-	-	-	-	-	1,115
Change in the accounting policy "Mobile terminal inventory" (4)	-	-	-	-	(1,380)	-	-	-	-	-	-	-	-	1,380
Reversal of actuarial calculations to determine the employee benefits obligation (5)	(2,638)	(90)	(1,277)	(335)	(1,270)	(2)	(592)	(8)	(26)	-	-	-	-	6,237
Changes in the accounting policies due to application of the equity method to joint venture (6)	-	-	-	-	-	-	-	-	-	-	33	-	-	33
Adjustment for changes in accounting policies for recognition of the adjusted cost of assets in Property, plant and equipment (7)	9,088	-	-	-	-	-	-	-	-	-	-	-	-	(9,088)
Adjustment for the difference in the accumulated depreciation account of other operating assets (8)	(2,195)	(54)	(11)	-	(94)	(331)	-	-	-	-	-	-	-	2,685
Adjustment for depreciation of operating assets of the Miravalles and La Paila 1 Geothermal Power Plants (9)	(13,049)	-	-	-	-	-	-	-	-	-	-	-	-	13,049
Adjustment to the valuation of the JICA-Scotiabank financial derivative, November 2016 (10)	-	-	-	-	-	-	-	-	-	3,682	-	-	-	(3,682)
Adjustment for reclassification of deferred tax (11)	-	-	-	-	-	-	-	-	-	-	-	123	-	123
Adjustment for alignment of accounting policies	218	-	-	-	-	-	-	-	-	-	-	-	(53)	(271)
Total effect of adjustments for changes in accounting policies and for corrections in 2016	(9,691)	(144)	(1,288)	(335)	(2,107)	(333)	(592)	(8)	(26)	3,682	33	123	(53)	10,944
Subtotal adjustments	(9,691)	(144)	(1,288)	(335)	(2,107)	(333)	(592)	(8)	(26)	3,682	33	123	(53)	10,944
Balance as of December 31, 2016, revised	€ 498,804	91,794	82,540	106,517	233,479	5,156	23,442	9,562	22,425	126,521	392	374	(53)	30,377

As indicated in note 40, due to the change adopted by ICE regarding the presentation and classification of the balances of its consolidated financial statements, applied retrospectively, the balances previously reported in 2016 and 2015 were modified.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The changes in accounting policies that had an economic impact on the financial figures for the current and prior periods and a description of the errors determined are as follows:

(1) Adjustment to warranties on mobile terminals and price adjustment

Provision for warranty on mobile terminals:

Until December 2016, Grupo ICE had not implemented in its accounting practices and policies the recognition and measurement of a provision to address warranties on terminals (mobile phones).

As of 2017, Grupo ICE broadened the policy on provisions for warranties on terminals, considering the following aspects:

- The value of the provision shall be the expected cost of the obligation, pursuant to local regulations on the sale of goods, according to the best estimate of the corresponding technical and financial area of the outflows required by Grupo ICE to settle the obligation with its clients.
- When warranties are supported by a third party (i.e. supplier) who will assume responsibility for all or part of the disbursement required to settle the provision, the asset related to that right shall be booked only when it is practically certain that it will be received. In that case, the asset shall be booked separately from the liability of the provision.

The effects derived from the adoption of this policy were applied retrospectively.

Provision for price adjustment:

Due to its activity in developing electricity generation and telecommunication projects, Grupo ICE constantly enters into contracts with suppliers. These contracts usually include clauses that allow for price adjustments in certain circumstances.

Until December 2016, Grupo ICE's practice regarding price adjustments was as follows:

- Price adjustments related to operating assets must be capitalized until the date when payment is made to the suppliers.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
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- It also considered that adjustments could be capitalized, as applicable, to the related items of property, plant, and equipment: warehouse materials, works, or the operating asset.

Starting 2017, Grupo ICE implemented the policy of recognition and measurement of price adjustments in a timelier manner, establishing a provision based on the expected cost of related obligations according to the best estimate made by the corresponding technical and financial areas of the outflows required by Grupo ICE to settle obligations with suppliers. The key parameters to establish provisions shall be considered, including the following considerations:

- Offsetting entries related to this provision are maintained according to the foregoing policies depending on the nature of the transaction. Therefore, they may be considered capitalizable if and when they meet the criteria for recognition of property, plant, and equipment; otherwise they shall be recognized in profit or loss for the period.
- The provision for price adjustment can be presented during the construction phase or when the asset is in operation. If the asset is in operation, the price adjustment is depreciated over the remaining useful life of the corresponding asset.

Grupo ICE recognizes in its consolidated financial statements the short- and long-term portions, depending on the estimated term to complete the price adjustment. Any update of the liability due to the time value of money is booked as a finance cost when incurred. The effects of the improvement to this policy are considered immaterial; therefore, there is no retrospective application on the financial statements.

(2) Accounting adjustment for the recording and presentation of submarine cable

Until December 31, 2016, Grupo ICE followed the policy of recording its investment in the use of submarine cable for telecommunications (Global Crossing and Maya 1), as “Operating assets – transport”.

In 2017, due to the adoption of best accounting practices, the nature of that investment was analyzed, concluding that it should be excluded from the “Operating assets – transport” account and presented as an intangible asset and equity investment. Thus, it was reclassified, and there was a retrospective restatement, disclosing this investment in intangible assets and equity investments, as applicable.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
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The Global Crossing submarine cable corresponds to the right of use of optical fiber for data traffic and the infrastructure built by Grupo ICE to be able to connect that cable to ICE's communication equipment on land. Maya 1 submarine cable corresponds to a joint investment with 37 other companies to build a submarine cable in the Caribbean, in which ICE participated along with its subsidiary RACSA.

The investment in the Global Crossing submarine cable was reclassified as an intangible asset, and the investment in Maya 1 submarine cable as an equity investment. This reclassification entails the restatement of prior year financial statements.

(3) Adjustment of accrued interest payable on financial derivative, IDB loan No.1908

An adjustment was made to accrued interest payable on financial derivatives, given that in July 2013 such interest was booked directly as expenses instead of settling the liability account, thus duplicating the expense in that period.

(4) Change in the accounting policy "Mobile terminal inventory"

Until December 2016, Grupo ICE did not consider the net realizable value in the valuation of available-for-sale inventories, which correspond to the mobile terminals held by the Telecom Segment for individual sale or in packages with the different services offered. Furthermore, it only booked an allowance for valuation of warehoused inventory, to cover potential losses due to obsolete and impaired inventory.

Starting in 2017, it adopted the net realizable value for available-for-sale inventories, which are recognized as assets until sold or transferred. In that case, inventories are recorded at the lower of cost and net realizable value. Net realizable value is determined by considering the selling price less estimated costs necessary to make the sale. In addition, the item "Allowance for net realizable value" was created, which reflects the effect of fluctuations in prices or costs related directly to events occurring as of or after closing. A quarterly assessment is performed to determine and maintain the revised value of the mobile terminal inventory at the lower of cost and the revised net realizable value.

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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- (5) Correction of error in the actuarial calculation to determine the employee benefits obligation

In 2016, by error, the vacations benefit was classified as a long-term benefit, while it should have been included in short-term benefits. Consequently, an adjustment was made to the measurement of that benefit through an actuarial study.

- (6) Change in accounting policy for application of the equity method to joint ventures

An adjustment was made due to the change in policy on investments in associates and joint ventures, concerning the relationship of Grupo ICE with the company ENATREL in Nicaragua. These companies jointly created Tecomunica S.A.

- (7) Correction in the application of the adjusted cost accounting policy

Correction related to the change in accounting policy for recognition of assets of property, plant and equipment, which are now measured at adjusted cost.

- (8) Correction of error in accumulated depreciation of other operating assets

An adjustment was made to correct the difference in the accumulated depreciation of other operating assets in relation to the subledger for 2016.

- (9) Correction of error in the depreciation expense of operating assets of the Miravalles and Las Pailas I Geothermal Power Plants

According to the technical report of the financial area of Engineering and Construction and the analysis of the management of the "Programa Integral Financiero Empresarial" (PIFE), there was an incorrect interpretation in the allocation of depreciation of the Miravalles and Las Pailas I Geothermal Power Plants, which resulted in a higher depreciation expense than what was required for 2016.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- (10) Correction of error in the recording of the valuation of the Scotiabank financial derivative that hedges the JICA loan

Corresponds to a correction in the valuation of the financial derivative performed in November 2016, which had a negative effect that was incorrectly booked as a positive effect.

- (11) Adjustment due to error in reclassification of deferred tax

An adjustment was made to reclassify deferred tax from long-term liabilities to other liabilities.

- (12) Reclassification of guarantees received on maximum demand securities due to change in policy

An adjustment to prior periods was made to reclassify the guarantees received on maximum demand securities to memoranda accounts.

**Note 40. Reclassifications**

Grupo ICE modified the presentation of its financial statements during 2017 to achieve a more appropriate and relevant disclosure of financial information, following best practices in presentation guidelines. Thus, Grupo ICE changed the presentation or classification of some accounts included in the 2016 financial statements to achieve comparability with the 2017 financial statements. The changes made to accounts included in the 2016 financial statements are as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Assets	December 2016 (previously reported)	Effect of retrospective adjustments	December 2016 (Restated)	Adjustment due to changes in the presentation of financial statements	December 2016 (Reclassified)
<b>Non-current assets:</b>					
Property, plant and equipment	¢ 4,802,726	129,334	4,932,060	92,952	5,025,012
Intangible assets	-	-	-	87,604	87,604
Equity investments	113,688	14,805	128,493	(98,062)	30,431
Notes and other accounts receivable	8,242	-	8,242	1,215	9,457
Investments in financial instruments	-	11	11	98,062	98,073
Guarantee and Savings Fund	-	-	-	208,826	208,826
<b>Total non-current assets</b>	¢ 4,924,656	144,150	5,068,806	390,597	5,459,403
<b>Current assets:</b>					
Inventories	63,683	-	63,683	30,593	94,276
Notes and other accounts receivable	6,598	-	6,598	29,801	36,399
Temporary investments	112,639	-	112,639	-	112,639
Restricted funds	28,518	-	28,518	-	28,518
Trade receivables	125,773	-	125,773	(29,801)	95,972
Prepaid expenses	73,025	(1,282)	71,743	-	71,743
Other assets	-	-	-	2,692	2,692
Cash and cash equivalents	174,224	-	174,224	-	174,224
<b>Total current assets</b>	¢ 584,460	(1,282)	583,178	33,285	616,463
<b>Other assets:</b>					
Service agreements	1,215	-	1,215	(1,215)	-
Design and planning of the execution	92,952	-	92,952	(92,952)	-
Technical service centers	66	-	66	(66)	-
Intangible assets, net	52,560	35,044	87,604	(87,604)	-
Securities received as guarantee deposits	6,042	(5,909)	133	(133)	-
Guarantee and Savings Fund (restricted fund)	208,826	-	208,826	(208,826)	-
Transfers to the Guarantee and Savings Fund	2,493	-	2,493	(2,493)	-
Operating inventories	32,719	(2,126)	30,593	(30,593)	-
<b>Total other assets</b>	396,873	27,009	423,882	(423,882)	-
<b>Total assets</b>	¢ 5,905,989	169,877	6,075,866	-	6,075,866

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Liabilities and Equity	December 2016 (Previously reported)	Effect of retrospective adjustments	December 2016 (Restated)	Adjustment due to changes in the presentation of financial statements	December 2016 (Reclassified)
Equity:					
Paid-in capital	₡ 156	-	156	-	156
Development reserve	2,514,192	26,963	2,541,155	-	2,541,155
Actuarial gain (loss)	(22,187)	1,901	(20,286)	-	(20,286)
Gain (loss) on valuation of financial instruments	(7,412)	-	(7,412)	-	(7,412)
Legal reserve	11,979	-	11,979	71	12,050
Project development reserve	71	-	71	(71)	-
Restricted earnings from capitalization of shares in subsidiary	62,380	-	62,380	-	62,380
Retained earnings	64,037	155,145	219,182	-	219,182
Profit (loss) on investments in other companies	-	(251)	(251)	-	(251)
Non-controlling interest	2,383	2,203	4,586	-	4,586
Equity, net	2,625,599	185,961	2,811,560	-	2,811,560
Liabilities:					
Non-current liabilities:					
Securities payable	1,123,489	-	1,123,489	-	1,123,489
Loans payable	869,919	-	869,919	-	869,919
Finance lease obligations	494,750	-	494,750	-	494,750
Employee benefits	-	(2,780)	(2,780)	106,829	104,049
Accounts payable	9,241	-	9,241	-	9,241
Prepaid income	6,071	-	6,071	-	6,071
Guarantee and Savings Fund	-	-	-	208,826	208,826
Other provisions	-	-	-	232	232
Other liabilities	-	-	-	52,772	52,772
Obligations derived from credit	157	-	157	(157)	-
Security deposits	58,681	(5,909)	52,772	(52,772)	-
Provision for severance benefits	106,829	-	106,829	(106,829)	-
Legal provisions	232	-	232	(232)	-
Total non-current liabilities	₡ 2,669,369	(8,689)	2,660,680	208,669	2,869,349
Current liabilities:					
Securities payable	25,000	-	25,000	-	25,000
Loans payable	91,351	-	91,351	-	91,351
Finance lease obligations	14,618	-	14,618	-	14,618
Employee benefits	-	(134)	(134)	26,650	26,516
Accounts payable	131,904	-	131,904	(5,736)	126,168
Prepaid income	16,198	-	16,198	-	16,198
Accrued employer obligations payable	-	-	-	49,966	49,966
Accrued interest payable	-	-	-	21,454	21,454
Other provisions	-	-	-	4,446	4,446
Other liabilities	-	-	-	19,240	19,240
Accrued finance expenses payable	22,788	(1,334)	21,454	(21,454)	-
Deposits from private individuals or companies	7,503	-	7,503	(7,503)	-
Accrued expenses for employer obligations	55,367	(13,153)	42,214	(42,214)	-
Provision for severance benefits	26,650	-	26,650	(26,650)	-
Legal provisions	2,476	1,970	4,446	(4,446)	-
Total current liabilities	393,855	(12,651)	381,204	13,753	394,957
Other liabilities:					
Valuation of financial instruments	6,324	5,256	11,580	(11,580)	-
Accounts payable	2,016	-	2,016	(2,016)	-
Guarantee and Savings Fund (restricted fund)	208,826	-	208,826	(208,826)	-
Total other liabilities	217,166	5,256	222,422	(222,422)	-
Total liabilities	3,280,390	(16,084)	3,264,306	-	3,264,306
Total liabilities and equity	₡ 5,905,989	169,877	6,075,866	-	6,075,866

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	December 2016 (Previously reported)	Effect of retrospective adjustments	December 2016 (Restated)	Adjustment due to changes in the presentation of financial statements	December 2016 (Reclassified)
<b>Operating income:</b>					
Electricity services	¢ 804,015	-	804,015	-	804,015
Telecom services	576,503	-	576,503	12	576,515
Internal consumption of services	12	-	12	(12)	-
<b>Total operating income</b>	<b>1,380,530</b>	<b>-</b>	<b>1,380,530</b>	<b>-</b>	<b>1,380,530</b>
<b>Operating costs:</b>					
Operation and maintenance	238,885	(9,691)	229,194	269,610	498,804
Operation and maintenance of leased equipment	89,859	(144)	89,715	2,079	91,794
Depreciation of operating assets	271,689	-	271,689	(271,689)	-
Supplemental services and purchases	180,215	-	180,215	-	180,215
Production management	83,828	(1,288)	82,540	-	82,540
<b>Total operating costs</b>	<b>864,476</b>	<b>(11,123)</b>	<b>853,353</b>	<b>-</b>	<b>853,353</b>
<b>Gross surplus</b>	<b>516,054</b>	<b>11,123</b>	<b>527,177</b>	<b>-</b>	<b>527,177</b>
<b>Other income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,388</b>	<b>52,388</b>
<b>Operating expenses:</b>					
Administrative	106,852	(335)	106,517	-	106,517
Selling expenses	235,586	(2,107)	233,479	-	233,479
Preinvestment studies	5,489	(333)	5,156	-	5,156
Preliminary studies	24,034	(592)	23,442	-	23,442
Supplemental	9,570	(8)	9,562	-	9,562
Other expenses	-	-	-	22,426	22,426
<b>Total operating expenses</b>	<b>381,531</b>	<b>(3,375)</b>	<b>378,156</b>	<b>22,426</b>	<b>400,582</b>
<b>Operation surplus</b>	<b>134,523</b>	<b>14,498</b>	<b>149,021</b>	<b>29,962</b>	<b>178,983</b>
<b>Finance income:</b>					
Finance income	29,421	-	29,421	(29,421)	-
Investment income	-	-	-	29,421	29,421
Foreign exchange differences	8,498	-	8,498	-	8,498
Income from investments in other companies	359	33	392	-	392
Other income	52,388	-	52,388	(52,388)	-
<b>Total finance income</b>	<b>90,666</b>	<b>33</b>	<b>90,699</b>	<b>(52,388)</b>	<b>38,311</b>
<b>Finance costs:</b>					
Finance costs	120,792	3,682	124,474	2,047	126,521
Commissions	2,047	-	2,047	(2,047)	-
Foreign exchange differences	59,411	-	59,411	-	59,411
Other expenses	22,451	(25)	22,426	(22,426)	-
<b>Total finance costs</b>	<b>204,701</b>	<b>3,657</b>	<b>208,358</b>	<b>(22,426)</b>	<b>185,932</b>
<b>Total finance income and finance costs, net</b>	<b>(114,035)</b>	<b>(3,624)</b>	<b>(117,659)</b>	<b>(29,962)</b>	<b>(147,621)</b>
<b>Surplus (deficit), net</b>	<b>20,488</b>	<b>10,874</b>	<b>31,362</b>	<b>-</b>	<b>31,362</b>
<b>Income tax</b>	<b>(1,306)</b>	<b>-</b>	<b>(1,306)</b>	<b>-</b>	<b>(1,306)</b>
Minority interest (1.4%)	251	123	374	-	374
Deferred tax	-	(53)	(53)	-	(53)
<b>(Deficit) surplus, net</b>	<b>¢ 19,433</b>	<b>10,944</b>	<b>30,377</b>	<b>-</b>	<b>30,377</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 41. Tax regulations****(a) Tax obligations**

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 *General Sales Tax Law* (Law No. 6826) and amendments thereto, the *Regulations to the General Sales Tax Law* and amendments thereto, the *General Customs Law* and regulations and amendments thereto, the *Law on Strengthening and Modernization of Public Telecommunication Companies* (Law No. 8660), and the *General Telecommunications Law* (Law No. 8642).

**(b) Income Tax**

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 sources in financing and executing national electrification plans and promoting the electricity industry.*”

In addition, Article 1 of Law No. 7722 entitled *Government Institutions Subject to Payment of Income Tax* stipulates that: “*excess income over expenses 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.*” This law grants ICE a special tax status with respect to the payment of tax obligations.

Given that ICE must reinvest the total net surplus obtained, although for tax purposes it presents taxable income and the income tax is determined, no tax obligation is generated due to the special condition that it holds. Additionally, in its normal transactions with other State-owned institutions, ICE is subject to income tax withholdings that are subsequently applied as a credit to the sales tax liability.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(c) General Sales Tax

Grupo ICE also pays general sales tax pursuant to the *General Sales Tax Law* (Law No. 6826). This is a value-added tax on the sale of merchandise and rendering of certain services. For the sale of energy for residential electricity consumption, the tax rate is 5% on amounts consumed in excess of 250 kW per month versus 13% for commercial consumption and the rendering of telecommunications services.

Because it is a value-added tax, ICE pays sales tax on the merchandise and services required to develop its economic activity. Pursuant to Article 14 of the *General Sales Tax Law*, sales tax paid on merchandise and inputs that are used for distribution, sale, and production of electricity and telecom services can be applied as a credit to the sales tax liability for the period.

(d) Special quasi-fiscal tax paid by telecommunications operators and suppliers to FONATEL

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 an affidavit issued for periods of one calendar year. The affidavit 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 between 1.5% and 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

This tax was created by the *Modification of several laws to finance the Costa Rican Red Cross* (Law No. 9355) published on May 27, 2016, whereby a quasi-fiscal tax contribution to the Costa Rican Red Cross was created.

This tax corresponds to 1% of the amounts paid by the end user (owners of a landline, mobile, prepaid, postpaid, or any other type of phone line). The amounts collected must be paid on the 15<sup>th</sup> of each month, at the latest. This law replaced law No. 8690, which established the Red Tax to Finance the Costa Rican Red Cross, previously paid.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(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%), general sales 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.

(h) Other obligations

ICE is also an income tax withholding agent in accordance with the *Income Tax Law*. As such, the taxpayer is subject to the withholding and ICE has joint and several liability regarding that obligation. Among its responsibilities as a withholding agent, ICE must withhold and pay the corresponding tax to the Tax Authorities on behalf of recipients of the following types of income:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- Wages, non-salary payments, compensation for personal services, and per diem allowances.
- 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*.

**Note 42. Financial risk management**

Grupo ICE has exposure to the following risks arising from financial instruments: credit risk (risk of economic loss derived from default on payments by customers or counterparties), liquidity risk (entity's inability to meet obligations due to lack of liquidity), and market risk (currency and interest rate risks). The board of directors has overall responsibility for the establishment and oversight of ICE's financial risk management framework. The board of directors has established an Investment Committee, which is responsible for developing and monitoring ICE's risk management policies. The committee reports directly to the board of directors. Risk management policies are established to identify and analyze the risks faced by Grupo ICE, to set appropriate risk limits and controls.

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 Corporate Division delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) on investment decisions, including investment limits, currency, and risk levels for the portfolio composition.

The Investment Committee approves the Investment Strategy document (reviewed annually) and the Management Limits document for 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, modified duration, concentration indicators, credit risk indicators, liquidity, etc. Stress testing and back testing are used to measure the effectiveness of the model used.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Pursuant to the Risk Committee's Internal Regulations, the coordination of ICE's Risk Committee is transferred to the Executive Office of the President, since the General Management disappears.

Additionally, the Financial Corporate Division has made efforts to determine action plans and goals to meet the 2013-2021 financial plan and strategy. Accordingly, this Division submits management reports to senior management.

a) Accounting classifications and fair values

Some of Grupo ICE's financial assets are measured at fair value at the end of the reporting period. The following table provides information on how the fair value of these financial assets is determined:

Financial assets	As of December 31,				Fair value hierarchy	Valuation technique(s) and key indicators
	2017	Type	2016	Type		
Temporary investments	¢ 30,240	Asset	¢ 112,639	Asset	Level 1	The valuation is made using the return on investments shown in the price vector of Proveedor Integral de Precios Centroamérica (PIPCA) as of December 31, 2017.
<b>Total</b>	<b>¢ 30,240</b>		<b>112,639</b>			

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 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.

As detailed in the following table, management considers that the carrying amount of the financial assets and liabilities recognized in the financial statements approximates their fair value:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		As of December 31,			
		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>					
Loans and accounts receivable:					
- notes receivable	¢	5,233	5,160	14,840	13,016
<b>Financial liabilities</b>					
Financial liabilities measured at amortized cost:					
- loans	¢	2,134,847	2,072,800	2,109,759	2,069,388
- accounts payable		106,950	106,950	135,409	135,409
Finance leases payable		508,612	523,252	509,368	531,750

		Fair value hierarchy			
		As of December 31,			
		2017		2016	
		Level 1	Level 2	Level 1	Level 2
<b>Financial assets</b>					
Loans and accounts receivable:					
- notes receivable	¢	-	5,160	¢	-
<b>Financial liabilities</b>					
Financial liabilities measured at amortized cost:					
- loans	¢	1,129,965	942,835	¢	1,077,258
- accounts payable		106,950	-		135,409
Finance leases payable		43,252	480,000		51,237

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The fair values of financial assets and liabilities included in Level 1 and Level 2 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.

## b) Risk management

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 as follows:

*“To provide ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization 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 Corporate Division through the financial risk process.

The use of financial derivatives is in accordance with Grupo ICE's policies and complies with best international accounting practices, which provide written principles on foreign currency, interest rate, and credit risks, the use of derivative and non-derivative financial instruments, and excess liquidity investment. This process takes place through the financing and investments process.

Each year, the Financial Corporate Division develops a financial risk map for Grupo ICE, and follows-up on controls and action plans on an annual basis.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)ii) *Credit risk*

Credit risk represents the potential loss due to failure of a customer or counterparty to comply with the contractual terms of Grupo ICE's operations, mainly cash, cash equivalents, receivables, and investments.

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

In the case of CNFL, credit risk is the risk of default on principal and/or interest payments as a result of internal and external factors that negatively affect the realization of cash flows, operating income (expenses), and surplus (deficit) outlooks. A shortage of liquidity is not expected to have a negative effect on CNFL's exposure to credit risk.

In the case of RACSA, credit risk is the lack of control policies and measures to manage the level of credit granted to customers, which may jeopardize income and generate high financial losses as a result of bad debt. To mitigate this risk, RACSA applies customer quality controls through credit protectors and filters the portfolio of customers in arrears, developing customer profiles.

The carrying amounts of financial assets represent the maximum credit exposure, as follows:

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Carrying amount of financial assets		As of December 31,	
		2017	2016
Cash and cash equivalents	¢	172,904	174,224
Temporary investments, net		30,240	112,639
Equity investments		30,686	30,431
Restricted funds		16,822	28,518
Notes and accounts receivable		47,007	45,856
<b>Total</b>	<b>¢</b>	<b>297,659</b>	<b>391,668</b>

- Accounts receivable

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

- In the Telecom Segment, issue of the bill and collections procedure via messaging to remind the customer of the outstanding payment.
- 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 ICE's cashier windows.
- In the event that the balance outstanding is not recovered, the administrative collection process begins 35 days after the services have been suspended. Administrative collection involves locating the customer and informing about the delinquency as well as notifying the credit protector thereof so that the situation is included in the customer's credit history. For such purposes, ICE has companies dedicated to collections or coordinating payment arrangements with customers to mitigate arrears.
- As a last resort, any residual past due accounts are processed by ICE's Corporate Legal Division and collection is pursued by legal action.

Note 7 "Significant accounting policies" explains in detail the accounting policy for booking the allowance and the administrative and legal collection processes.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- Investments

In the case of credit or counterparty risk, the ratings given to Grupo ICE's investments are monitored and tracked based on the Investment Strategy and risk profile determined by the Investment Committee.

Financial risks are identified for all financial operations related to financial instruments, such as: short-, medium-, and long-term financing and all aspects of treasury management, including lines of credit, bank letters of credit, buying and selling of currency, investments, issue of securities, raw material purchases, etc.

At board of directors' meeting No. 6148 held on September 7, 2015, a guideline was approved to authorize the Financial Corporate Division to designate financial derivatives, in accordance with the Risk Management and Financial Risk Hedging Strategy, to mitigate the effects of currency and interest rate risks in financial operations. As a result, the agreement issued by the board of directors at meeting No. 6063 dated October 23, 2013, establishing a limit of US\$970 million solely for colon/US dollar hedges, is nullified.

Investment guidelines are approved by the Board of Directors and the Financial Investment Policy Manual is approved by General Corporate Financial Management. That manual contains all regulations concerning issuers, instruments, and permitted sectors, as well as rules to be observed in respect of brokerage firms and custodians.

As of December 31, 2017, the maximum exposure to credit risk in respect of notes and other accounts receivable and trade receivables by geographic region is as follows:

Geographic region	As of December 31,	
	2017	2016
Costa Rica	¢ 148,781	135,784
Other countries	4,370	6,044
<b>Total</b>	<b>¢ 153,151</b>	<b>141,828</b>

As of December 31, 2017, the maximum exposure to credit risk in respect of notes and other accounts receivable and trade receivables by type of counterparty is as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Type of counterparty		As of December 31,	
		2017	2016
Private individuals or companies	¢	107,410	69,690
High, medium, and low-tension customers		-	23,273
Telephone administrations		2,006	2,439
Distribution companies		12,390	10,855
Other - Government		15,710	17,039
Operators and service providers		4,368	6,046
Public lighting system		-	516
Other		11,267	11,970
<b>Total</b>	<b>¢</b>	<b>153,151</b>	<b>141,828</b>

- Impairment losses

As of December 2017, Grupo ICE's most significant clients are JASEC for ¢4,745 (2016: ¢5,007) and ESPH for ¢4,748 (2016: ¢3,515).

The aging of trade receivables and other accounts receivables not impaired is as follows:

Aging of notes receivable, trade receivables, and other accounts receivable (past due but not impaired)	As of December 31,	
	2017	2016
Current	76,487	56,238
1 to 30 days	37,307	39,024
31 to 60 days	6,259	6,338
61 to 90 days	4,662	2,782
91 to 120 days	3,499	2,004
121 to 150 days	941	3,579
151 to 180 days	6,193	5,923
181 to 360 days	8,755	8,779
More than 361 days	9,048	17,161
<b>Total</b>	<b>153,151</b>	<b>141,828</b>

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The following is an analysis of the credit quality of commercial debtors and other accounts receivable (current and not impaired):

		As of December 31,	
		2017	2016
Current	¢	94,795	86,669
Administrative and legal collection		58,356	55,159
<b>Total</b>	<b>¢</b>	<b>153,151</b>	<b>141,828</b>

The movement in the allowance for accounts receivable is as follows:

		As of December 31,	
		2017	2016
Opening balance	¢	62,522	59,910
Allowance recognized during the year		13,071	15,455
Allowance used during the year		(15,887)	(12,843)
<b>Closing balance</b>	<b>¢</b>	<b>59,706</b>	<b>62,522</b>

iii) *Liquidity Risk:*

Liquidity risk refers to potential losses as a result of an early or forced sale of assets at unusual discounts that prevent ICE from meeting its obligations, or because a position cannot be sold, bought, or hedged by purchasing an equal but opposite position.

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 monitoring and tracking cash flows or 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

*(In millions of colones)*

The Financial Corporate Division 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, the business units and other areas of ICE must send the programming of payments for a 12-month period in compliance with ICE's treasury policies. Another important input is data obtained from the Institutional payment system, which furnishes the exact amount and deadline of payments as established in the agreements.

Additionally, it is important to have inputs and coordination with business units regarding income behavior and with areas responsible for finance management to allow a better matching and, thus, optimize treasury management seeking a better and timely attention to payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). 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, and payment orders must be processed through ICE's Payment System.

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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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 contractual maturities of financial liabilities, including contractual interest payments and excluding the impact of netting agreements:

Liabilities	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<b>Long-term liabilities</b>						
Securities payable	¢ 1,151,314	1,865,100	-	157,634	928,995	778,471
Loans payable	883,003	1,113,723	-	186,040	451,662	476,021
Finance lease obligations	491,909	860,112	-	105,727	368,819	385,566
Accounts payable	8,564	8,564	7,673	211	680	-
<b>Total long-term liabilities</b>	<b>2,534,790</b>	<b>3,847,499</b>	<b>7,673</b>	<b>449,612</b>	<b>1,750,156</b>	<b>1,640,058</b>
<b>Short-term liabilities</b>						
Loans payable	100,530	100,530	100,530	-	-	-
Finance lease obligations	16,703	16,703	16,703	-	-	-
Accounts payable	98,386	98,386	98,386	-	-	-
Accrued interest payable	21,149	21,149	21,149	-	-	-
<b>Total short-term liabilities</b>	<b>236,768</b>	<b>236,768</b>	<b>236,768</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>¢ 2,771,558</b>	<b>4,084,267</b>	<b>244,441</b>	<b>449,612</b>	<b>1,750,156</b>	<b>1,640,058</b>

(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 corresponding to 2016, including interest:

Liabilities	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<b>Long-term liabilities</b>						
Securities payable	¢ 1,123,489	1,153,712	14,693	22,038	653,338	463,643
Loans payable	869,919	916,756	34,427	128,933	335,134	418,262
Finance lease obligations	494,750	903,702	-	104,721	274,175	524,806
Accounts payable	9,241	9,242	6,490	1,376	1,376	-
<b>Total long-term liabilities</b>	<b>2,497,399</b>	<b>2,983,412</b>	<b>55,610</b>	<b>257,068</b>	<b>1,264,023</b>	<b>1,406,711</b>
<b>Short-term liabilities</b>						
Securities payable	25,000	25,000	25,000	-	-	-
Loans payable	91,351	91,351	91,351	-	-	-
Finance lease obligations	14,618	14,618	14,618	-	-	-
Accounts payable	126,168	126,168	126,168	-	-	-
Accrued interest payable	21,454	21,454	21,454	-	-	-
<b>Total short-term liabilities</b>	<b>278,591</b>	<b>278,591</b>	<b>278,591</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>¢ 2,775,990</b>	<b>3,262,003</b>	<b>334,201</b>	<b>257,068</b>	<b>1,264,023</b>	<b>1,406,711</b>

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)iv) *Market risk:*

Market risk is the risk that changes in market prices, e.g. foreign exchange rates and interest rates will 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.

ICE acquires derivative financial instruments to manage part of its existing market risks. All hedging operations are valued according to the price provided by the issuer of the instrument. Hedge accounting is used for qualifying instruments 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, ICE has elected to specifically manage derivatives for existing liabilities.

The following risks have been identified in 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 13 derivative financial instruments: two to hedge interest rate risk, namely swaps; two to hedge against the yen/US dollar fluctuations, known as a Cross Currency Swap; and nine to hedge against the US dollar/colón fluctuations, called Non-Deliverable Currency Swap.

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 ICE is in US dollars.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The goal is to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the financial risks related to the exchange rate. These instruments must be designated as hedging instruments; instruments for speculation are not accepted. Consequently, these instruments shall be booked applying "hedge accounting."

Some of the instruments that may be used are the following:

- a) Forward
- b) Plain vanilla
- c) Interest rate swap
- d) Exchange rate 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.

Exposure to currency risk

As of December 31, 2017, Grupo ICE's exposure to currency risk is as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	US dollars		Yen		Euro	
	December		December		December	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Materials in transit for investment	21	44	2,814	5,118	1	2
Long-term investments	50	24	-	-	-	-
Notes receivable	5	6	-	-	-	-
Banks and temporary investments	112	71	-	-	-	-
Restricted funds	1	1	-	-	-	-
Receivables for services rendered	16	21	-	-	-	-
Non-trade receivables	11	18	-	-	-	-
Securities received as guarantee deposits	-	-	-	-	-	-
Materials in transit for operation	1	3	-	-	-	-
Valuation of derivative financial instruments	-	12	-	-	-	-
<b>Total assets in foreign currency</b>	<b>217</b>	<b>200</b>	<b>2,814</b>	<b>5,118</b>	<b>1</b>	<b>2</b>
<b>Liabilities</b>						
Securities payable	1,558	1,558	-	-	-	-
Short- and long-term loans payable	1,115	1,289	17,604	14,846	-	-
Long-term finance leases	417	429	-	-	-	-
Security deposits	60	-	-	-	-	-
Accounts payable	80	87	3,142	5,055	3	5
Accrued finance expenses payable	25	32	-	-	-	-
Deposits from private individuals or companies	1	-	-	-	-	-
Valuation of derivative financial instruments	8	23	-	-	-	-
Gain (loss) on valuation of financial instruments	-	20	-	-	-	-
<b>Total liabilities in foreign currency</b>	<b>3,264</b>	<b>3,438</b>	<b>20,746</b>	<b>19,901</b>	<b>3</b>	<b>5</b>
<b>Excess liabilities over assets</b>	<b>3,047</b>	<b>3,238</b>	<b>17,932</b>	<b>14,783</b>	<b>2</b>	<b>3</b>

Items in US dollars were updated using the sell rate for the colón with respect to the US dollar established by the Central Bank of Costa Rica for operations with the non-banking public sector, equivalent to ¢570.49 as of December 31, 2017 (2016: ¢556.44).

The following exchange rates have been applied:

Currency	Exchange rate - US dollars	
	December	
	2017	2016
Swedish krona	8.18	9.11
Pound sterling	1.35	1.23
Swiss franc	0.97	1.02
Euro	1.19	1.05
Colones	570.49	556.44
Japanese yen	112.69	116.96

In the case of currency operations, Grupo ICE adheres to the provisions of Law No. 7558, *Internal Regulations of the Central Bank of Costa Rica*, 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 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The table below shows the sensitivity as of December 31, 2017 and 2016, to an increase or decrease in the exchange rate of the US dollar with respect to the colon. Grupo ICE applies a sensitivity index of 10%, which represents its best estimate of exchange rate variations of the US dollar with respect to the colon.

		December	
<u>US dollars</u>		2017	2016
<i>Sensitivity to an increase in the exchange rate:</i>			
Net position in US dollars at the closing exchange rate	¢	1,738,283	1,801,753
Net position in US dollars	USD	3,047	3,238
Net position in US dollars at the closing exchange rate with a 10% increase in the exchange rate	¢	1,912,111	1,981,928
Loss	¢	(173,828)	(180,175)
<i>Sensitivity to a decrease in the exchange rate:</i>			
Net position in US dollars at the closing exchange rate	¢	1,738,283	1,801,753
Net position in US dollars	USD	3,047	3,238
Net position in US dollars at the closing exchange rate with a 10% decrease in the exchange rate	¢	1,564,455	1,621,577
Gain	¢	173,828	180,175

This analysis assumes that all other variables, particularly interest rates and foreign exchange rates, remain constant.

Interest rate risk

The financial hedging policy adopted by Grupo ICE establishes that the minimum interest rate risk exposure at a variable rate shall be 40%. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

Exposure to interest rate risk

Grupo ICE maintains significant assets and liabilities, mainly represented by temporary investments, long-term investments, securities, and loans payable obtained to finance its commercial operations, which are subject to interest rate variations.

Details of the interest rates on financial assets and liabilities are provided in the following notes:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	Note
Securities payable	20A
Temporary investments, net	15
Loans payable	20B
Investments in financial instruments	12
Notes and other accounts receivable	11
Finance lease obligations	20C

Sensitivity analysis

In managing interest rate risk, Grupo ICE aims to reduce the impact of short-term fluctuations on its earnings. With respect to temporary investments, long-term investments, and securities and loans payable, permanent changes in interest rates would have an impact on profit or loss.

During the year ended December 31, 2017, it is estimated that an overall increase or decrease of one percentage point in interest rates would have caused the following changes in financial assets and liabilities:

		Effects on profit or loss			
		2017		2016	
		Strengthening of 1%	Weakening of 1%	Strengthening of 1%	Weakening of 1%
Temporary investments	¢	1,045	(1,045)	1,126	(1,126)
Long-term financial investments		1,976	(1,976)	1,137	(1,137)
Long-term notes receivable		1,355	(1,355)	81	(81)
Short-term notes receivable		1,693	(1,693)	24	(24)
Long-term securities payable		11,246	(11,246)	10,965	(10,965)
Short-term securities payable		-	-	619	(619)
Long-term loans payable		6,582	(6,582)	6,351	(6,351)
Short-term loans payable		2,551	(2,551)	2,520	(2,520)
Finance leases payable		5,086	(5,086)	5,094	(5,094)
Net effect	¢	31,534	(31,534)	27,917	(27,917)

(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 cash flow hedges

As of December 31, 2017, cash flows related to derivative financial instruments are shown below. Expected cash flows consider the projected cash flow estimates:

In millions of colones	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cross-currency swap	Liabilities ¢ (4,998)	5,928	668	1,207	1,037	2,202	814
Cross-currency swap	Liabilities 1,964	4,372	492	891	765	1,624	600
Forward starting swap	Liabilities (1,684)	1,065	287	379	216	183	-
Plain vanilla swap	Liabilities (127)	90	90	-	-	-	-
Non-deliverable currency swap Tranche b-1	Liabilities (42)	56	56	-	-	-	-
Non-deliverable currency swap Tranche a-1	Liabilities (482)	1,105	174	295	240	311	85
Non-deliverable currency swap 3 years	Liabilities (648)	2,963	466	455	999	1,043	-
Coupon swap 3 years	Liabilities 180	55	45	35	(25)	-	-
Coupon swap 3 years	Liabilities (193)	1,231	313	612	306	-	-
Coupon swap 3 years	Liabilities 6	216	60	104	52	-	-
Coupon swap 3 years	Liabilities 104	193	64	112	17	-	-
Coupon swap 3 years	Liabilities (255)	819	208	407	204	-	-
Coupon swap 3 years	Liabilities (185)	473	124	228	121	-	-
Total	¢ (6,360)	18,566	3,047	4,725	3,932	5,363	1,499

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2016, cash flows related to derivative instruments are indicated; for expected cash flows, cash flow projections are considered:

In millions of colones	Carrying amount	Expected cash flows	6-12 months		2-5 years		More than 5 years
			6 months or less	6-12 months	1-2 years	2-5 years	
Cross-currency swap	Liabilities ¢	7,344	732	1,352	1,207	2,659	1,394
Cross-currency swap	Liabilities	1,417	540	997	891	1,962	1,026
Forward starting swap	Liabilities	(2,737)	631	884	548	682	69
Plain vanilla swap	Liabilities	(774)	443	404	-	-	-
Non-deliverable currency swap Tranche b-1	Liabilities	(274)	166	165	-	-	-
Non-deliverable currency swap Tranche a-1	Liabilities	(972)	369	640	537	1,003	155
Non-deliverable currency swap 7 years	Liabilities	1,255	719	681	-	-	-
Coupon swap 3 years	Liabilities	(18)	665	1,319	1,206	561	-
Coupon swap 3 years	Liabilities	(972)	428	857	857	429	-
Coupon swap 3 years	Liabilities	(147)	81	163	163	81	-
Coupon swap 3 years	Liabilities	(79)	670	1,346	1,234	583	-
Coupon swap 3 years	Liabilities	(502)	275	551	551	276	-
Coupon swap 3 years	Liabilities	(327)	848	133	283	149	-
Total		(10,145)	5,852	9,642	7,477	8,385	2,644

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

In the case of cash flow hedges, expected cash flows for the primary instrument and the hedging derivative are presented below:

In millions of colones		Expected cash flows -	
		derivatives	
		Less than 12 months	More than 12 months
Forward starting swap	¢	1,067	400
Plain vanilla swap		90	-
Total	¢	1,157	400

In millions of colones		Expected cash flows -	
		liabilities	
		Less than 12 months	More than 12 months
IDB-1931A/OC-CR	¢	44,712	36,583
IDB-1931B/OC-CR		8,557	-
Total	¢	53,269	36,583

(Continued)



The general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Detalle	Dólar/colón tres años C34812601207	PFI022 Dólar/colón tres años C3489721003	PFI024 Dólar/colón tres años C38910	PFI026 Dólar/colón tres años C39164	PFI027 Dólar/colón tres años C3489850286	PFI023 Dólar/colón tres años C3489721052	PFI025 Dólar/colón tres años C38912
Deuda cubierta	BONOS 2043	BID-1908	BID-1908	Bono 2021	Bono 2021	Bono 2043	Bono 2043
Monto principal	USD 200	USD 50	USD 50	USD 100	USD 200	USD 50	USD 50
Monto cubierto	CRC 113,216	CRC 27,815	CRC 27,716	CRC 55,200	USD 110,850	CRC 27,815	CRC 27,716
Tipo de cambio	CRC 566,08	CRC 556,29	CRC 554,31	CRC 552,00	CRC 554,25	CRC 556,29	CRC 554,31
Fecha de contratación	22/11/2017	23/11/2016	23/11/2016	09/12/2016	09/12/2016	23/11/2016	23/11/2016
Fecha inicio cobertura o primer pago	15/11/2017	25/11/2016	25/11/2016	10/11/2016	10/11/2016	14/11/2016	14/11/2016
Fecha vencimiento cobertura	15/11/2020	25/11/2019	25/11/2019	10/11/2019	10/11/2019	14/11/2019	14/11/2019
Plazo	3 años	3 años	3 años	3 años	3 años	3 años	3 años
Tasa base	6,375%	Libor 6 meses	Libor 6 meses	6,95%	6,95%	6,375%	6,375%
Spread sobre/bajo tasa base	-	0,90%	0,90%	7,94%	7,72%	6,96%	7,29%
Tasa variable	-	-	-	-	-	-	-
Tasa total Fija	7,190%	2,92%	3,05%	7,94%	7,72%	6,96%	7,29%
Estrategia	Cobertura	Cobertura	Cobertura	Cobertura	Cobertura	Cobertura	Cobertura
Riesgo cubierto	Tipo de cambio dólar/colón	Tipo de cambio dólar / colón	Tipo de cambio dólar/colón	Tipo de cambio dólar/colón	Tipo de cambio dólar/colón	Tipo de cambio dólar/colón	Tipo de cambio dólar/colón
Instrumento contratado	Permuta de divisa no entregable	Permuta de divisa no entregable	Permuta de divisa no entregable	Permuta de divisa no entregable	Permuta de divisa no entregable	Permuta de divisa no entregable	Permuta de divisa no entregable

(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 states 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 the fourth quarter of 2017, Grupo ICE’s capital management remained unchanged and 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:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Debt to equity ratio		As of December 31,	
		2017	2016 (Restated)*
Total liabilities	¢	3,251,480	3,264,306
(-) Cash and cash equivalents		(172,904)	(174,224)
Net debt		3,078,576	3,090,082
Total equity		2,782,793	2,811,560
Less:			
Amounts accumulated in equity related to cash flow hedges		(16,267)	(7,412)
Adjusted equity	¢	2,799,060	2,818,972
<b>Debt to equity ratio</b>		<b>1.100</b>	<b>1.096</b>

(\*) See note 39.

Estimation of potential losses:

Pursuant to SUGEVAL's methodology, adjustments were made to the assessment of potential losses on Grupo ICE's investments; accordingly, a risk rating and write-off percentage is assigned to each investment based on the maturity of the instrument, as follows:

International ratings				
Term	Moody's	Standard & Poor's	Fitch	Weighting factor
Short-term	-	A1+	F1+	0.0%
	P1	A1	F1	1.0%
	P2	A2	F2	2.5%
	P3	A3	F3	5.0%
	-	B	B	7.5%
	C and other	C and other	C and other	10.0%
Long-term	AAA	AAA	AAA	0.0%
	AA	AA	AA	1.0%
	A	A	A	2.5%
	BAA	BBB	BBB	5.0%
	BA	BB	BB	7.5%
	B	B	B	9.0%
	CAA and other	CCC and other	CCC and other	10.0%

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

<b>Local ratings</b>		
<b>Term</b>	<b>Rating</b>	<b>Weighting factor</b>
Short-term	1, 2, 3	7.5%
	Other	10.0%
Long-term	AAA - A	7.5%
	BBB - B	9.0%
	CCC and other	10.0%

<b>Category</b>	<b>International ratings</b>		<b>Local ratings</b>	
	<b>Long-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Short-term</b>
1	AAA and AA	F1, A-1 and P-1	-	-
2	A and BBB	F2, A-2 and P-2	-	-
3	BB	F3 and P-3	Scr-AAA and AAA(cri)	Scr-1 and F1(cri)
			Scr-AA and AA(cri)	Scr-2 and F2 (cri)

Write-off percentages are applied as follows: BCCR investments, 0%; Government and Ministry of Finance, 0.5%; repurchase agreements are applied a counterparty rating; and unrated issues (classified in the "Other" category), 10%. Sovereign ratings and write-offs are applied to investments in US dollars in accordance with the tables above. The final result corresponds to the "potential loss".

As of December 31, 2017, risk ratings reported for Grupo ICE are as follows:

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Portfolio instruments as of December 2017			
Issuer	Entry No./ISIN	Instrument	Risk rating
Banco BAC San José, S.A.	CRBSJ00B1640	BSJ bond	AAA (cri)
Banco BAC San José, S.A.	CRBSJ00B1913	BSJ bond	AAA(cri)
Banco BAC San José, S.A.	CRBSJ00B1921	BSJ bond	AAA(cri)
Banco BAC San José, S.A.	CRBSJ00B1970	BSJ bond	AA+(cri)
Banco Cathay	00CATAYE1878	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE4609	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE6976	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE7438	Term certificate of deposit (global bond)	SCR2
Banco Central de Costa Rica	CRBCCR0B3207	Repurchase operation	BB
Banco Central de Costa Rica	CRBCCR0B4080	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4221	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4403	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4726	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4767	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4874	Fixed-rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4882	Fixed-rate monetary stabilization bond	BB
Banco Davivienda (Costa Rica) S.A.	CRBDIV00088	Davivienda bond	AAA(cri)
Banco de Costa Rica	CRBCR00B3552	BCR bond	AA+(cri)
Banco Hipotecario de la Vivienda -BANHVI-	00BANVIE2498	Term certificate of deposit (global bond)	SCR1
Banco Hipotecario de la Vivienda -BANHVI-	CRBANVIB0094	BANHVI bond	SCR AA+
Banco Improsa	00BIMPRE6150	Term certificate of deposit (global bond)	SCR2
Banco Improsa	00BIMPRE7497	Term certificate of deposit (global bond)	SCR2
Banco InterNacional de C.R. -Miami-	0NR0ICE00046	Overnight deposit	BB+
Banco InterNacional de C.R. -Miami-	0NR0ICE00051	Overnight deposit	BB+
Banco InterNacional de C.R. -Miami-	0NR0ICE00358	IDB 2747 overnight deposit	BB+
Banco InterNacional de C.R. -Miami-	0NR0ICE00689	BEI overnight deposit	BB+
Banco Lafise	00BLAFIE1807	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE1856	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE3035	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE4595	Term certificate of deposit (global bond)	SCR2
Banco Nacional de Costa Rica	CRBNCR0B1737	BNCR bond	AA+(cri)
Banco Nacional de Costa Rica	CRBNCR0B1745	BNCR bond	AA+(cri)
Banco Nacional de Costa Rica	CRBNCR0B1752	BNCR bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CGB80	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CGG85	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CGG85	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CGM38	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0E2994	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7168	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7259	BPDC bond	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7275	BPDC bond	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7309	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7317	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7325	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7341	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7390	BPDC bond	AA+(cri)
Banco Prival,S.A. (antiguo Bansol Banco de Soluciones)	00PRIVAE2993	Term certificate of deposit (global bond)	F1+ (cri)
Banco Promérica	CRBPROMB1284	Promérica bond	SCR AA +
Banco Promérica	CRBPROMB1359	Promérica bond	SCR AA +
Banco ScotiaBank de Costa Rica, S.A.	CRSCOTIB1292	ScotiaBank bond	AAA(cri)
Fideicomiso Benemérito Cuerpo de Bomberos	CRFTBCBB0044	FTBCB bond	SCR AA
Fideicomiso Benemérito Cuerpo de Bomberos	CRFTBCBB0051	FTBCB bond	SCR AA
Financiera Desyfin	00FDESYE6217	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE6936	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE7330	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE7314	Term certificate of deposit (global bond)	SCR2
Florida Ice & Farm Company S.A.	CRFIFCOB0998	FIFCO bond	SCR AAA

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Government	0NR0ICE00800	Zero-coupon Central Bank bond (over the counter)	BB
Government	CRG0000B11H2	Central Bank bond	BB
Government	CRG0000B25H2	Repurchase operation	BB
Government	CRG0000B27H8	Repurchase operation	BB
Government	CRG0000B27H8	Central Bank bond	BB
Government	CRG0000B27H8	Central Bank bond	BB
Government	CRG0000B29H4	Central Bank bond	BB
Government	CRG0000B36H9	Central Bank bond	BB
Government	CRG0000B42H7	Central Bank bond	BB
Government	CRG0000B48H4	Central Bank bond	BB
Government	CRG0000B51H8	Central Bank bond	BB
Government	CRG0000B56G9	Central Bank bond	BB
Government	CRG0000B56H7	Central Bank bond	BB
Government	CRG0000B57H5	Central Bank bond	BB
Government	CRG0000B60G1	Central Bank bond	BB
Government	CRG0000B72G6	Central Bank bond	BB
Government	CRG0000B76H5	Sovereign adjustable real Central Bank bond	BB
Government	CRG0000B80H7	Repurchase operation	BB
Government	CRG0000B82H3	Central Bank bond	BB
Government	CRG0000B89G0	Central Bank bond	BB
Government	CRG0000B91H4	Repurchase operation	BB
Government	CRG0000B93H0	Repurchase operation	BB
Government	CRG0000B96G5	Repurchase operation	BB
Government	CRG0000B96G5	Central Bank bond	BB
Government	CRG0000B97G3	Central Bank bond	BB
Government	CRG0000C03I5	Zero-coupon Central Bank global bond	BB
Government	CRG0000C04I3	Zero-coupon Central Bank global bond	BB
Government	CRG0000C06I8	Zero-coupon Central Bank global bond	BB
Government	USP3699PAA59	External debt bond - Costa Rica	BB
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	00MADAPCT246	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	00MADAPCT832	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	CRMADAPB2467	MADAP bond	SCR AA
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	CRMADAPB2475	MADAP bond	AA+(cri)
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	CRMADAPB2475	MADAP bond	SCR AA+
Grupo Mutual Alajuela-la Vivienda de Ahorro y Préstamo	CRMADAPB2525	MADAP bond	SCR AA+
La Nación S.A.	CRNACIOB0142	La Nación S.A. bond	SCR AAA
La Nación S.A.	CRNACIOB0175	La Nación S.A. bond	SCR AAA
Mutual Cartago de Ahorro y Préstamo	CRMUCAPB1441	MUCAP bond	SCR2
Mutual Cartago de Ahorro y Préstamo	CRMUCAPB1458	MUCAP bond	AA+(cri)
Mutual Cartago de Ahorro y Préstamo	CRMUCAPB1474	MUCAP bond	AA+(cri)
Refinadora Costarricense de Petróleo	CRRECOPB0012	RECOPE standardized bond	AAA (cri)
Refinadora Costarricense de Petróleo	CRRECOPB0020	RECOPE standardized bond	AAA (cri)
Safi BAC San José	SAJCPcFI	I.F. BAC San José liquidity colones, non-diversified	SCR AA+F2
Safi Banco de Costa Rica	BCRLIcFI	I.F. BCR short-term colones, non-diversified	SCR AA+F2
Safi Banco de Costa Rica	BCRLIcFI	I.F. BCR short-term colones, non-diversified	SCR AAF2
Safi Banco de Costa Rica	BCRMXcFI	I.F. BCR mixed colones, non-diversified	SCR AAF2
Safi Banco de Costa Rica	FI-000000022	I.F. BCR liquidity US dollars, non-diversified	SCR AA+F2
Safi Banco de Costa Rica	FI-000000022	I.F. BCR liquidity US dollars, non-diversified	SCR AA+F2
Safi Banco de Costa Rica	FI-000000066	I.F. BCR mixed US dollars, non-diversified	SCR AAF2

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Safi Banco Nacional de Costa Rica	BNASUPERSFI	I.F. BN SuperFondo US dollars, non-diversified	F1+ (cri)
Safi Banco Nacional de Costa Rica	BNASUPERcFI	I.F. BN SuperFondo colones, non-diversified	SCR AAF2
Safi Banco Nacional de Costa Rica	BNASUPERcFI	I.F. BN SuperFondo colones, non-diversified	SCR AAF2
Safi Banco Nacional de Costa Rica	FI-000000001	I.F. BN DinerFondo colones, non-diversified	SCR AA+F2
Safi Banco Nacional de Costa Rica	FI-000000002	I.F. BN DinerFondo US dollars, non-diversified	F1+ (cri)
Safi Banco Popular	FI-000000006	I.F. BPDC money market colones, non-diversified	SCR AAF2
Safi Banco Popular	FI-000000006	I.F. BPDC money market colones, non-diversified	SCR AAF2
Safi Instituto Nacional de seguros	BACLACcFI	I.F. INS - liquidity colones, non-diversified	SCR AAF 2
Safi Instituto Nacional de seguros	BACLAD\$FI	I.F. INS - liquidity US dollars, non-diversified	SCR AAF 2
Safi Instituto Nacional de seguros	BANCREDILASCcFI	I.F. INS - liquidity public colones, non-diversified	SCR AAF 2
Safi Instituto Nacional de seguros	BANCREDILASD\$FI	I.F. INS - liquidity public US dollars, non-diversified	SCR AAF 2
Safi ScotiaBank	ITFCPPUSFI	I.F. Scotia public US dollars, non-diversified	SCR AAF 3
Safi ScotiaBank	ITFCPPUSFI	I.F. Scotia public US dollars, non-diversified	SCR AAF3
Safi ScotiaBank	ITFCPPUcFI	I.F. Scotia public US dollars, non-diversified	SCR AAF2
The Bank of Nova Scotia (Costa Rica)	00BNSCRE6541	Term certificate of deposit (global bond)	F1+ (cri)
The Bank of Nova Scotia (Costa Rica)	CRBNSCRB0021	Nova ScotiaBank bond	AAA(cri)
The Bank of Nova Scotia (Costa Rica)	CRBNSCRC0012	Commercial paper (private)	F1+ (cri)

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 43. Contingent assets and liabilities**

As of December 31, 2017, judicial processes involving Grupo ICE are as follows:

Proceedings	Number of cases	Estimated amount of the claim	As of December 31,	
			2017	2016
			Litigation provision	
<b><u>Contingent assets - lawsuits filed by Grupo ICE:</u></b>				
Arbitration (1)	20	3,781	-	-
Ordinary Administrative (2)	30	2,221	-	-
Ordinary Criminal	35	494	-	-
Other	68	270	-	-
<b>Total contingent assets</b>	<b>153</b>	<b>6,766</b>	<b>-</b>	<b>-</b>
Proceedings	Number of cases	Estimated amount of the claim	As of December 31,	
			2017	2016
			Litigation provision	
<b><u>Contingent liabilities - lawsuits filed against Grupo ICE:</u></b>				
Administrative proceedings (3)	105	9,912	-	142
Ordinary (Administrative)	27	2,658	578	1,340
Administrative and Civil Court of Finance (4)	11	13,910	71	-
Execution of judgment (Administrative)	4	43	43	41
Other	184	105,633	1,157	1,185
<b>Total contingent liabilities</b>	<b>331</b>	<b>132,156</b>	<b>1,849</b>	<b>2,708</b>
<b>Less reclassification of non-current portion</b>			<b>609</b>	<b>232</b>
<b>Current</b>			<b>1,240</b>	<b>2,476</b>

Below is the definition of the main types of proceedings and jurisdictions recognized by Grupo ICE:

- a) Arbitration: resolution of a lawsuit without resorting to the ordinary jurisdiction. The parties, by mutual agreement, decide to appoint an independent third party, an arbitrator or an arbitration court, to settle the dispute. The arbitrator, in turn, will be limited by that agreed by the parties to issue the arbitration award. It shall be performed in conformity with the law chosen by the parties, or in equity, as agreed.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- b) Contentious: judicial proceedings that review the behaviors protected by the contentious jurisdiction. The contentious-administrative jurisdiction has the goal of protecting the legal status of all persons, guaranteeing or reestablishing the lawfulness of any behavior of the Public Administration subject to administrative law, as well as hearing and resolving the various aspects of the legal-administrative relationship (Article 1 of the Contentious-Administrative Procedural Code).
- c) Administrative: administrative proceedings are processed in the administrative venue and, pursuant to paragraph 1 of Article 214 of the *General Public Administration Law*, must seek to ensure compliance with the goals of the Public Administration with regard to the subjective rights and legitimate interests of the persons subject to its jurisdiction, in conformity with the body of law.

The cases with larger amounts of contingent assets and liabilities are as follows:

- (1) ICE awarded Verizon, through a tender, the production of phonebooks. Due to a breach of contract by Verizon, ICE began judicial proceedings before an administrative court in 2005, to collect damages. Within this process, ICE requested as a precautionary measure to seize the monies deposited by ICE. Current status of the proceedings: "By means of a decision of the First Chamber of the Supreme Court of Justice, the defendant is sentenced to the payment of damages due to breach of contract, according to the indicated estimate." The estimated amount as of December 31, 2017 and 2016 is ¢3,781.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- (2) Administrative proceedings (execution of judgment) filed against RECOPE seeking payment of economic damages due to the excess cost incurred in electricity generation with diesel at the production centers in Garabito, Orotina, and Guápiles resulting from the late delivery of fuel. The amounts were awarded in judgment No. 133-2016 by the Administrative Court. The estimated amount as of December 31, 2017 and 2016 is ¢1,030 and ¢5,723, respectively.
- (3) The company Call My Way NY S.A. filed a complaint against ICE before SUTEL, claiming anti-competitive practices by ICE that generate barriers for new competitors to enter the telecommunications market and that promote the exit of existing ones. It is based on that the promotions launched by ICE cannot be replicated by them and are not sustainable for ICE, since they are below cost. The case is currently awaiting resolution by SUTEL. The estimated amount as of December 31, 2017 is ¢8,868.

Precautionary measures were requested through file No. 15-005029-1027-CA. This is currently being appealed by SUTEL. The hearing established a bond for the total of the fine; however, the complaint seeks annulment of RCS-088-2015 due to defects identified that entail violations of due process. As of December 31, 2017, the estimated amount of the case is ¢2,158.

- (4) The main proceedings before the Administrative and Civil Court of Finance are related to one of its subsidiaries:
- i. Instalaciones Inabensa, S.A. – File No. 5-1194-163-CA: This case was initiated for the collection of penalties during the project for underground electrification of San José. The plaintiff seeks the collection of claims and reimbursement of penalties, filed during the stage of execution of the aforementioned project, for an estimated amount of ¢11,081.
  - ii. Ghella Spa Costa Rica – File No. 10-3471-1027-CA: This claim seeks the annulment of the limitations established in Addendum No. 1 of the Contract for design, construction, equipment, and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount is ¢20,940.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

*(In millions of colones)*

- iii. Grupo Corporativo SARET: The plaintiff filed an early precautionary measure against CNFL for execution of the performance bond for collection of penalties. Furthermore, the plaintiff filed a formal claim for consequential damages, lost wages, and loss of opportunity. The estimated amount of the proceedings is ¢7,726.

These legal proceedings correspond to the subsidiary CNFL. It has made the corresponding legal appeals. As of December 31, 2017 there are insufficient elements to establish the possible outcome. Due to this uncertainty, the subsidiary's management has not considered it necessary to create a provision for potential losses.

In addition, as of December 31, 2017, the status of the proceedings regarding the Chucás and the Hidrotárcoles Hydroelectric Projects is as follows:

(a) Chucás Hydroelectric Project

The Chucás Hydroelectric Power Plant is a BOT project built by P.H. Chucás, S.A., 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, ICE processed a fine in the amount of US\$9.4 million (approximately ¢5,092).

(Continued)

## 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 approximately 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, among others. Furthermore, the arbitration award indicated that ICE was not entitled to exercising 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 requires 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 others. 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 ICE, to which ARESEP would necessarily be a party as regulator of the electricity business and entity responsible for setting rates. ICE's management and the legal counsel consider that due to the arguments of the appeal for annulment filed before the First Chamber of the Supreme Court of Justice and of the criminal complaint filed against the arbitrators before the Public Prosecutor's Office, there is a probability that the final ruling will be favorable for ICE. Consequently, management does not consider it necessary to record a provision for potential losses in relation to this case.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

## (b) Hidrotárcoles Hydroelectric Project

The Capulín Hydroelectric Project corresponds to a BOT project started by the company P.H. Hidrotárcoles, S.A. and considered in power purchase agreement No. 2012000023 subscribed by ICE and that entity on April 24, 2012. The project is located between the cantons of Turrubares and Atenas, in the province of San José and Alajuela, respectively. According to the terms of agreement, once the start order was issued, in August 2012, P.H. Hidrotárcoles, S.A. had to begin the construction of the plant, and the beginning of 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 non-compliance with the guaranteed date for beginning of operations, given that at the date when the plant should have been completed the progress was 20%. Furthermore, as established in the power purchase agreement, ICE notified the representative of the creditors, Banco Nacional de Costa Rica, of its intention to terminate the agreement and its decision to not undertake the project.

In December 2015, P.H. Hidrotárcoles, S.A. filed a request for precautionary measures to suspend the aforementioned proceedings before the Administrative Court. The request was admitted in January 2016, ordering the suspension of the proceedings. In addition, in February of that same year, P.H. Hidrotárcoles, S.A. filed a complaint against ICE before the Administrative Court, requesting the annulment of several administrative acts that gave rise to the proceedings. It also sought declaration of the right of P.H. Hidrotárcoles, S.A. to modify the guaranteed date of beginning of operations and to sentence ICE to the payment of damages, among others.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Along with the filing of this complaint, P.H. Hidrotárcoles, S.A. requested the same precautionary measure before the Administrative Court in order to prevent ICE from continuing with the administrative proceedings for termination of the agreement. However, on February 21, 2017, the Administrative Court of Appeals issued a final decision disallowing the precautionary measure. 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 of recusal against the 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.

During the course of the administrative proceedings, P.H. Hidrotárcoles, S.A. was guaranteed the right of defense and due process at all times, and it was able to file all allegations and evidence for defense that it considered relevant to disprove the alleged non-compliance that it was charged with. The proceedings ended with the issue of a final decision by the Órgano Decisor (Decision Body) through official letter No. 5201-10-2018, dated January 15, 2018, whereby it approves the termination of the agreement and reprimand and warning to P.H. Hidrotárcoles S.A., derived from public bid No. 2006-000043-PROV.

On January 18, 2018, within the established term, P.H. Hidrotárcoles, S.A. formally filed a motion for reconsideration and appeal to a higher court as well as an appeal for annulment against this final decision. The motion for reconsideration was adjudged by the Órgano Decisor on March 12, 2018. Corporate Services Management subsequently adjudged the appeal for annulment. Consequently, all available administrative remedies were exhausted.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)**Note 44. Balances and transactions with related parties**

Balances and transactions with related parties are as follows:

**Commercial and financial transactions:**

During the year, Grupo ICE performed the following commercial transactions with related parties:

		Sale of goods and services		Purchase of goods and services	
		For the year ended December 31,			
		2017	2016	2017	2016
<b>Construction services:</b>					
UNO PH Reventazón/Scotiabank/2013 Trust	¢	1,497	11,229	1,665	-
Other related parties		-	164	-	-
<b>Advisory services:</b>					
AYA		2,004	588	2,272	-
CONAVI		971	945	844	-
MINAE-SENARA		-	1,226	-	-
National Emergency Comission (CNE)		2,843	-	2,829	-
<b>Interest:</b>					
Government entities		5,252	3,873	-	-
State-owned financial entities		5,480	2,653	11,299	9,457
<b>Other services:</b>					
Autonomous institutions		-	-	619	1,432
Government entities		2,314	1,275	1,708	851
Other related parties		2,041	1,338	409	2,730
<b>Total</b>	¢	<b>22,402</b>	<b>23,291</b>	<b>21,645</b>	<b>14,470</b>

The sale of goods and services to related parties were made at Grupo ICE's regular list prices. Purchases were made at market price to reflect the amount of goods purchased and the relationship between the parties.

(Continued)



## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Outstanding receivable and payable balances at the end of the reporting period are as follows:

		Receivable		Payable
		Balances due from related parties as of December 31,		Balances due to related parties as of December 31,
		2017	2016	2017
Government entities	¢	5,149	4,397	-
Other related parties		-	-	100
<b>Total</b>	¢	<b>5,149</b>	<b>4,397</b>	<b>100</b>

These balances do not include utility expenses (electricity, water, telecommunications, social security and taxes).

Outstanding balances are unsecured and are expected to be settled in cash. No guarantees have been provided or received. No expenses have been recognized in the current or prior periods in relation to uncollectible or doubtful accounts due from related parties.

As of December 31, 2017, leases and loans payable with State-owned financial entities amount to ¢258,560 (2016: ¢247,344).

The following balances correspond to financial investments and restricted funds, placed in or through State-owned financial entities:

		As of December 31,	
		2017	2016
Cash equivalents	¢	41,522	37,860
Held to maturity		113,420	84,170
Restricted funds		16,822	28,518
<b>Total</b>	¢	<b>171,764</b>	<b>150,548</b>

As of December 31, 2017, interest receivable on securities with State-owned financial entities amounts to ¢1,895 (2016: ¢2,875).

As of December 31, 2017, ownership interest in autonomous and non-governmental agencies amount to ¢30,686 (2016: ¢30,431) (see note 10).

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)Compensation to key management personnel

Compensation to directors and other key management personnel during 2017 and 2016 is as follows:

		<b>As of December 31,</b>	
		<b>2017</b>	<b>2016</b>
Short-term benefits	¢	6,552	5,619
Severance benefits		798	715
Post-employment benefits		782	162
Other long-term benefits		3	-
<b>Total</b>	¢	<b>8,135</b>	<b>6,496</b>

**Note 45. 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 Cable Visión de Costa Rica, S.A. (CVCRSA).
- Electricity Segment, which includes ICE's Electricity Sector and Compañía Nacional de Fuerza y Luz, S.A. (CNFL).

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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## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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:

For the years ended December 31,						
Profit (loss) per segment	Electricity		Telecommunications		Consolidated total	
	2017	2016*	2017	2016*	2017	2016*
Income per segment	¢ 767,278	804,015	590,656	576,515	1,357,934	1,380,530
Depreciation of operating assets	157,562	143,171	114,066	123,442	271,628	266,613
Investment income	21,962	19,669	7,549	9,752	29,511	29,421
Finance costs	(166,856)	(110,425)	(10,923)	(16,096)	(177,779)	(126,521)
Foreign exchange differences, net	(44,967)	(45,922)	(4,988)	(4,991)	(49,955)	(50,913)
Income from investments in other companies	371	392	35	-	406	392
(Deficit) surplus, net	(63,884)	26,574	12,178	3,802	(51,706)	30,376

\* Restated. See notes 39 and 40.

The revenue by segment reported in the previous paragraphs corresponds to revenue generated by external clients.

Revenue from operations between segments is as follows:

- Revenue from sale of services by the Electricity Segment to the Telecom Segment in the amount of ¢6,506 (2016: ¢6,622).
- Revenue from the sale of services by the Telecom Segment to the Electricity Segment in the amount of ¢2,283 (2016: ¢2,600).

The accounting policies of the reportable segments are the same as those of Grupo ICE. Gains by segment represent the gains obtained by each segment without the share of profit or loss for the year, finance income, 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.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

*(In millions of colones)*(d) Assets and liabilities by segment

As of December 31,							
Segment assets and liabilities		<u>Electricity</u>		<u>Telecommunications</u>		<u>Consolidated total</u>	
		2017	2016*	2017	2016*	2017	2016*
Property, plant and equipment, net	¢	4,779,497	4,826,929	1,254,773	1,248,937	6,034,270	6,075,866
Liabilities	¢	2,909,067	2,768,849	342,413	495,457	3,251,480	3,264,306

\* Restated. See notes 39 and 40.

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 business 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 ABC costing methodology, approved for Grupo ICE by the board of directors.

(e) Other segment information

		<u>Depreciation and amortization</u>		<u>Additions to non-current assets</u>	
		Year ended December 31, 2017	Year ended December 31, 2016*	Year ended December 31, 2017	Year ended December 31, 2016
Telecom Segment	¢	120,389	138,047	155,175	88,223
Electricity Segment		170,502	150,767	208,578	947,159
	¢	<b>290,891</b>	<b>288,814</b>	<b>363,753</b>	<b>1,035,382</b>

\* Restated. See notes 39 and 40.

(Continued)

## INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements  
(In millions of colones)(f) Revenue from the main products and services

Grupo ICE's revenue from the main products and services of its continuing operations is as follows:

		<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>
Telephone, data, and internet services	¢	464,534	499,194
Electricity services		767,278	790,242
Other services and products		126,122	91,094
<b>Total</b>	¢	<b>1,357,934</b>	<b>1,380,530</b>

Compensation to key management personnel includes wages and contributions to the defined benefit plan (severance benefits) and other long-term benefits paid during the year.