

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

Consolidated Financial Statements

December 31, 2018
(With corresponding figures for 2017)

(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)

Audit report on the consolidated financial statements

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, 2018, 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 effect on the corresponding figures as of December 31, 2017 of the matters mentioned in paragraphs one and two of the *Basis for Qualified Opinion* section, except for the effect of the matter mentioned in paragraph three of that section, and except for the possible effects of the matters mentioned in paragraphs four to seven of that section, the accompanying consolidated financial statements of Grupo ICE as of December 31, 2018 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 required in its accounting policy on prepaid expenses, during 2016 ICE amortized the cost incurred in purchases of energy from independent power producers, using as a reference the approval and communication of Intendencia de Energía [Energy Management Office] stating that the cost, which amounted 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 vi) *Prepaid expenses* of Note 7-e *Current asset policies*, which gave rise to an underestimated development reserve in 2016 and an underestimated net deficit for the year ended December 31, 2017.



As indicated in Note 8, during 2016, Grupo ICE adopted the 'adjusted cost' term, which substitutes the historical cost of assets, plus the revaluation adjustment and the component accounting policy for its property, machinery, and equipment by adjusting its accounting records starting 2016. However, as of that date and during 2017, one of its subsidiaries was in the process of updating the value of its property, machinery and equipment through appraisals performed by independent appraisers, replacing the price index method, so as to use the values in the adoption of the aforementioned policy for Grupo ICE. The net value of the revaluation for price indexes of those assets, included as an adjusted cost in the corresponding figures for 2017 and prior years, amounts to ¢143,424 (in millions) in "Operating assets" (Note 8); ¢5,393 (in millions) in "Other operating assets" (Note 8) and ¢147,338 (in millions) in "Revaluation surplus" included in retained earnings. During 2018, the subsidiary included the effects of that update by recognizing the effects as of January 1, 2018 because it was impracticable to determine the effects of the correction in each specific period. Our opinion on the consolidated financial statements as of December 31, 2017, dated May 28, 2018, was a modified. Our opinion on the consolidated financial statements as of December 31, 2018 was also a modified due to the possible effects that these matters may have had on the comparability of the current figures and the corresponding figures.

As indicated in Note 20 "Financial debt," ICE holds loan agreements and a finance lease obligation amounting to ¢826,146 (in millions) that set forth a number of financial covenants, which ICE failed to comply with. ICE requested and received the corresponding waivers from the financial institutions; however, the waivers did not meet the following aspects: reception before December 31, 2018 and coverage for a minimum of 12 months, as required by ICE's accounting policies. Consequently, as of December 31, 2018, ICE had to reclassify the financial debt from non-current to current, for a total of ¢760,729 (in millions). As a result, as of December 31, 2018, non-current and current liabilities are overestimated and underestimated, respectively, in the amount of ¢760,729 (in millions).

As part of the audit as of December 31, 2018 and 2017, the "Inventory" (Note 14) and "Other assets-inventory-investment" (Note 8) accounts, which amount to ¢255,430 (in millions) and ¢220,996 (in millions), respectively, as of those dates, were subject to a physical inventory count performed after December 31, 2018 and 2017, respectively. However, since the inventory subledgers were not available at the time of the physical count (for inventories as of 2017), nor records of the movements in inventory after December 31, 2018 and 2017, we were unable to retrospectively rebuild the amounts and inventory in stock as of those dates or to compare the results of the physical count of the selected items to identify potential differences with the accounting records as of those dates. Additionally, as of December 31, 2018, for "Operating inventory," "Other assets-inventory-investment" and "Material and equipment held in custody" amounting to ¢94,725 (in millions), ¢131,544 (in millions) and ¢29,161 (in millions), respectively, we selected a sample of items to review in order to verify the accuracy of the unit costs. However, management did not provide us with the total supporting documentation required; consequently, we were unable to complete our work and were unable to apply other audit procedures. Due to the aforementioned matters, we were unable to satisfy ourselves as to the physical stock of operating and investment inventory as of December 31, 2018 and 2017 or the accuracy of operating inventory, other assets-inventory-investment and material and equipment held in custody mentioned as of December 31, 2018. As a result, we were unable to determine whether adjustments to operating inventory, other assets-inventory-investment, and to net deficit and development reserve as of and for the years ended December 32, 2018 and 2017, and inventory of material and equipment held in custody as of December 31, 2018 and in the net deficit and development reserves for the year then ended.

As of December 31, 2018, the consolidated financial statements include under "Investment inventory" an amount of ₡92,449 (in millions), on which we were unable to obtain from ICE an analysis of obsolescence or slow movement, or subledgers with information on aging; thus, we were unable to perform audit procedures. Consequently, we were unable to satisfy ourselves as to the sufficiency of the allowance for valuation of those inventories as of December 31, 2018, and we were unable to determine whether any adjustments might have been necessary to the allowance for valuation of the inventory-investment and of the net deficit as of and for the year ended December 31, 2018.

As part of the audit process for 2018 and 2017, we were unable to conclude our testing of subsequent payments on accounts payable-other creditors as of December 31, 2018 and 2017. For 2017, there were no subledgers after that date that would allow us to identify potential liabilities that should have been recorded. For 2018, the subledgers were not provided to us on time to be able to perform our audit procedures. As of December 31, 2018 and 2017, those accounts payable amount to ₡68,893 (in millions) and ₡41,791 (in millions), respectively. As of December 31, 2017, confirmations of balances payable were sent to suppliers; however, in some cases, we received no response. For 2018, we were unable to perform the confirmation procedure since we were unable to obtain the accounts payable subledger or information from the purchases database in a timely manner. For 2018 and 2017, we 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. Consequently, we were unable to determine whether any adjustments might have been necessary to accounts payable, asset accounts, net deficit and development reserves as of and for the years ended December 31, 2018 and 2017.

As indicated in Note 19, as of December 31, 2018, the consolidated financial statements include cash on hand and in banks in the amount of ₡108,394 (in millions), which include negative and positive reconciliation items in the amount of ₡44,615 (in millions) and ₡41,862 (in millions), respectively, between the balances and account statements issued by the banks as of that date, on which we were unable to verify the origin, nature and reasonableness or perform other audit procedures as of that date. Consequently, we were unable to satisfy ourselves as to the completeness, existence and accuracy of the cash on hand and in banks as of December 31, 2018 and were unable to determine the existence of possible adjustments that might modify the balance of the asset and the balance of the other related accounts in the consolidated financial statements as of that date.

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

How the matter was addressed in our audit

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.

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 a sample of the actuarial study performed.

Key audit matter

How the matter was addressed in our audit

3. Provisions and contingent liabilities

We consider this area to be a key audit matter mainly because the elements considered for the measurement, recording, and disclosure of a provision or contingent liability involve a significant level of judgment and the uncertainty of the sources of information used for that measurement.

Our audit procedures in this area included:

- obtaining information regarding the control process designed for the determination, compilation, analysis, and follow-up of legal proceedings or lawsuits against Grupo ICE;
- obtaining details of all of the legal proceedings as of December 31, 2018, identifying the probability of a favorable outcome assigned and its impact on the consolidated financial statements;
- 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;
- 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;
- 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 Grupo ICE's Accounting Policy Manual.
- 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.

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 described in Notes 2 and 7, for determining the acceptability of the accounting basis, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our 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.

- 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 Group audit. We remain solely responsible for our audit opinion.

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

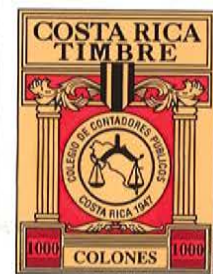
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.



May 28, 2019

San José, Costa Rica
Carlomagno Suñol Herrera
Member No. 1868
Policy No. 0116-FIG-7
Expires 09/30/2019



¢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, 2018
(With corresponding restated figures for 2017 and 2016)

<u>Assets</u>	<u>Note</u>	<u>2018</u>	<u>2017 (Restated)*</u>	<u>2016 (Restated)*</u>
Non-current assets:				
Property, plant and equipment, net	8	5.023.345	5.001.176	5.023.647
Intangible assets, net	9	91.684	92.078	87.604
Equity investments	10	30.768	30.649	30.431
Notes and other accounts receivable, net	11	2.994	3.159	9.457
Investments in financial instruments	12	121.338	110.412	69.786
Deferred tax assets		395	390	-
Guarantee and Savings Fund	13	222.212	221.056	208.826
Total non-current assets		<u>5.492.736</u>	<u>5.458.920</u>	<u>5.429.751</u>
Current assets:				
Inventories, net	14	112.366	97.290	94.276
Notes and other accounts receivable, net	11	95.312	66.171	58.891
Temporary investments	15	53.451	54.130	140.926
Restricted funds	16	1.017	1.301	1.275
Trade receivables, net	17	123.398	107.124	95.972
Prepaid expenses	18	50.771	46.484	71.743
Other assets		79	2.290	(19.800)
Cash and cash equivalents	19	138.655	188.420	201.467
Total current assets		<u>575.049</u>	<u>563.210</u>	<u>644.750</u>
Total assets	ø	<u>6.067.785</u>	<u>6.022.130</u>	<u>6.074.501</u>

* See Notes 32 and 33.

The notes on pages 1 to 171 are an integral part of these consolidated financial statements.

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

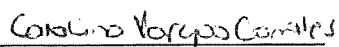
Consolidated Statement of Financial Position (continued)
(In millions of colones)

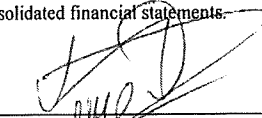
December 31, 2018
(With corresponding restated figures for 2017 and 2016)

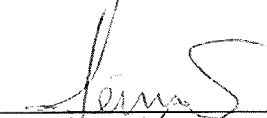
Liabilities and equity	Note	2018	2017 (Restated)*	2016 (Restated)*
Equity:				
Paid-in capital	¢	155	155	155
Other reserves		14.750	13.666	12.050
Restricted earnings from capitalization of shares in subsidiary		62.380	62.380	62.380
Actuarial gain (loss)		22.620	8.811	(20.286)
Income from investments in other companies		66	(185)	(251)
Valuation of non-derivative financial instruments and hedges		(41.786)	(16.267)	(7.412)
Retained earnings		318.559	203.288	219.183
Development reserve		2.253.159	2.494.488	2.539.790
Equity attributable to owners of ICE		2.629.903	2.766.336	2.805.609
Non-controlling interests		5.739	4.314	4.586
Equity, net		2.635.642	2.770.650	2.810.195
Liabilities:				
Non-current liabilities:				
Securities payable	20(a)	1.211.765	1.151.314	1.123.489
Loans payable	20(b)	887.060	883.161	869.919
Finance lease obligations	20(c)	488.057	491.909	494.750
Employee benefits	21	42.657	83.855	104.049
Accounts payable	22	7.605	8.564	9.241
Prepaid income	23	6.495	7.008	6.071
Guarantee and Savings Fund	13	222.212	221.056	208.826
Deferred tax liability	34	106.289	1.528	-
Other provisions	24	347	609	232
Other liabilities	25	53.967	52.610	52.772
Total non-current liabilities		3.026.454	2.901.614	2.869.349
Current liabilities:				
Securities payable	20(a)	19.482	-	25.000
Loans payable	20(b)	93.133	100.530	91.351
Finance lease obligations	20(c)	20.189	16.703	14.618
Employee benefits	21	7.291	24.772	26.516
Accounts payable	22	163.606	107.775	119.473
Prepaid income	23	28.164	18.628	16.198
Accrued employer obligations payable	26	46.498	42.919	56.661
Accrued interest payable		17.811	21.149	21.454
Other provisions	24	2.860	3.034	4.446
Other liabilities	25	6.655	14.356	19.240
Total current liabilities		405.689	349.866	394.957
Total liabilities		3.432.143	3.251.480	3.264.306
Total liabilities and equity	¢	6.067.785	6.022.130	6.074.501
Memoranda accounts	27 ¢	186.256	193.350	160.942

* See Notes 32 and 33.

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Catalina Vargas Corrales
Manager Corporate Services


Jesús Orozco Delgado
Head of the Finance Department


Jeirny Sánchez Umaña
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, 2018
(With corresponding restated figures for 2017)

	Note	2018	2017 (Restated)*
Operating income:			
Electricity services	¢	812.785	767.278
Telecom services		586.783	590.656
Total operating income	28	1.399.568	1.357.934
Operating costs:			
Operation and maintenance		512.946	512.892
Operation and maintenance of leased equipment		112.272	101.101
Supplemental services and purchases		209.802	172.508
Production management		68.529	87.389
Total operating costs	29	903.549	873.890
Gross surplus		496.019	484.044
Other income	30	37.134	57.029
Operating expenses:			
Administrative		130.794	117.428
Selling expenses		232.326	234.405
Preliminary studies		26.801	21.005
Supplemental		95.155	3.700
Other expenses		34.472	27.888
Total operating expenses	29	519.548	404.426
Operating surplus		13.605	136.647
Finance income and finance costs:	31		
Investment income		23.015	29.511
Finance costs		(199.920)	(177.780)
Foreign exchange differences, net		(99.607)	(49.955)
Income from investments in other companies		488	383
Total finance income and finance costs, net		(276.024)	(197.841)
Net deficit before income tax		(262.419)	(61.194)
Income tax:	34		
Current		(723)	(1.516)
Deferred		6.198	(15)
Total income tax		5.475	(1.531)
Net deficit	¢	(256.944)	(62.725)

* See Notes 32 and 33.

The notes on pages 1 to 171 are an integral part of these consolidated financial statements.

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

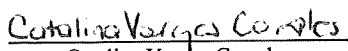
Consolidated Statement of Income and Expenses and Other Comprehensive Income (continued)
(In millions of colones)

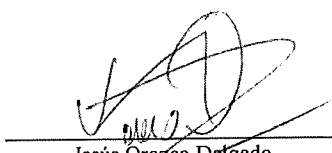
For the year ended December 31, 2018
(With corresponding restated figures for 2017)

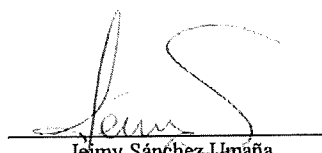
	Note	2018	2017 (Restated)*
Net deficit		¢ (256.944)	(62.725)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Effect of actuarial gains for the year	21	13.830	30.014
Effect of eliminations of reciprocal transactions		960	1.844
Subtotal		14.790	31.858
Items that are or may be reclassified subsequently to profit or loss:			
Net loss on fair value of cash flow hedges		(23.968)	(6.445)
Net loss on available-for-sale financial assets		(1.551)	(2.410)
Subtotal		(25.519)	(8.855)
Other comprehensive income		(10.729)	23.003
Total comprehensive income for the year		(267.673)	(39.722)
Income for the year attributable to:			
Owners of ICE		(256.661)	(62.453)
Non-controlling interests		(283)	(272)
Total		(256.944)	(62.725)
Total comprehensive income for the year attributable to:			
Owners of ICE		(267.673)	(39.722)
Total		¢ (267.673)	(39.722)

* See Notes 32 and 33.

The notes on pages 1 to 171 are an integral part of these consolidated financial statements.


Catalina Vargas Corrales
Manager Corporate Services


Jesús Orozco Delgado
Head of the Finance Department


Jeimy Sánchez Umaña
Accounting Process Coordinator

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

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

For the year ended December 31, 2018
(With corresponding retained figures for 2017)

Note	Paid-in capital	Valuation of non-derivative financial instruments and hedges	Development reserve	Legal reserve	Project development reserve	Restricted earnings from liquidation of investment in subsidiary	Retained earnings	Actual gain (loss)	Profit (loss) on investment in other companies	Equity attributable to owners of ICE	Non-controlling interest	Net equity
€	155	(7,412)	2,541,155	11,979	71	62,380	219,183	(20,286)	(251)	2,806,974	4,586	2,811,560
32	-	-	(1,365)	-	-	-	-	-	-	(1,365)	-	(1,365)
	155	(7,412)	2,539,790	11,979	71	62,380	219,183	(20,286)	(251)	2,805,609	4,586	2,810,195
32	-	-	-	1,616	-	-	(1,616)	-	-	-	-	-
	-	-	-	1,616	-	-	(1,616)	-	-	66	-	66
32	-	-	(46,981)	-	-	-	(15,472)	-	-	(62,453)	-	(62,725)
21	-	-	1,679	-	-	-	165	-	-	1,844	-	1,844
	-	-	-	-	-	-	917	29,097	-	30,014	-	30,014
	-	(6,445)	-	-	-	-	-	-	-	(6,445)	-	(6,445)
	-	(2,410)	-	-	-	-	-	-	-	(2,410)	-	(2,410)
	-	(8,855)	(45,302)	-	-	-	(14,390)	29,097	-	(39,450)	-	(39,722)
	-	-	-	-	-	-	111	-	-	111	-	111
	-	-	-	-	-	-	(14,279)	29,097	-	(39,339)	-	(39,611)
	155	(16,267)	2,494,488	13,595	71	62,380	203,288	8,811	(185)	2,766,336	4,314	2,770,650
8	-	-	2,494,488	13,595	-	-	130,727	-	-	130,727	1,087	132,414
	155	(16,267)	(241,420)	-	-	-	334,015	8,811	(185)	2,897,063	6,001	2,903,064
	-	-	-	-	-	-	(15,241)	-	-	(256,661)	(383)	(256,944)
21	-	-	91	-	-	-	869	-	-	960	-	960
	-	-	-	-	-	-	-	13,809	-	13,809	21	13,830
	-	(23,968)	-	-	-	-	-	-	-	(23,968)	-	(23,968)
	-	(1,551)	-	-	-	-	-	-	-	(1,551)	-	(1,551)
	-	(25,519)	(241,329)	-	-	-	(14,372)	13,809	-	(267,411)	(362)	(267,673)
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	1,084	-	-	(1,084)	-	251	251	-	251
	-	-	-	1,084	-	-	(1,084)	-	251	251	-	251
€	155	(41,786)	2,253,159	14,679	71	62,380	318,559	22,520	66	2,629,905	5,739	2,635,642

The notes on pages 1 to 171 are an integral part of these consolidated financial statements.

Catalina Vargas Castro
Catalina Vargas Castro
Manager Corporate Services

Jessy Briceño Chaleah
Head of the Finance Department

Jenny Sanchez Umada
Accounting Process Coordinator

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

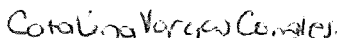
Consolidated Statement of Cash Flows
(In millions of colones)

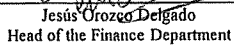
For the year ended December 31, 2018
(With corresponding restated figures for 2017)

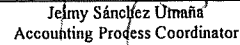
	Note	2018	2017 (Restated)*
Cash flows from operating activities:			
Deficit for the year		¢ (256,944)	(62,725)
Adjustments for:			
Depreciation	8	290,002	285,138
Finance costs		143,396	115,509
Severance benefits	21	(16,485)	17,942
Statutory Christmas bonus	26	18,165	17,728
Back-to-school bonus	26	19,169	18,233
Accrued vacation	26	19,554	15,589
Allowance for doubtful accounts	17	11,254	7,252
Allowance for valuation of inventory	14	1,809	3,742
Expense on disposal of assets	8, 9	23,877	44,401
Expense on disposal of construction work in progress	8	109,921	-
Amortization	9	23,694	21,673
Net realizable value	14, 24	(37)	4,383
Provision for mobile terminals	24	(248)	927
Litigation provision	24	(214)	(859)
Income tax		(5,481)	1,531
Foreign exchange differences	20 (d)	125,045	49,807
Loss on valuation of financial instruments		(29,242)	(14,141)
Accrued interest		(19,416)	(15,656)
		457,819	510,474
Changes in:			
Increase in trade receivables and other accounts receivable		(54,108)	(19,208)
Increase in inventories		(16,848)	(11,139)
(Increase) decrease in other assets		(1,752)	3,143
Increase (decrease) in accounts payable		54,832	(12,375)
Decrease in severance benefits		(28,385)	(9,866)
Increase in prepaid income		9,023	3,367
Decrease in provision for mobile terminals	24	-	(1,104)
Decrease in severance benefits		(80,655)	(94,811)
Increase in deferred tax		110,959	1,123
Increase in other liabilities		1,216	610
Cash flows from operating activities		452,101	370,214
Interest paid		(149,197)	(125,169)
Tax paid		(723)	(1,516)
Interest received		17,020	15,478
Net cash from operating activities		319,201	259,007
Cash flows from investing activities			
Investments in subsidiaries		1,840	(41)
Long-term investments		(53,266)	(58,003)
Maturity of long-term investments		38,531	17,377
Additions to property, plant and equipment		(272,283)	(258,757)
Increase in intangible assets	9	(27,673)	(25,538)
Decrease in temporary investments		644	86,420
Net cash used in investing activities		(312,207)	(238,542)
Cash flows from financing activities:			
Increase in securities payable	20 (d)	18,672	6,327
Amortization of securities payable	20 (d)	-	(25,392)
Increase in loans payable	20 (d)	51,427	91,712
Amortization of loans payable	20 (d)	(103,206)	(91,349)
Amortization of finance leases	20 (d)	(23,652)	(14,810)
Net cash used in financing activities		(56,759)	(33,512)
Net decrease in cash and cash equivalents		(49,765)	(13,047)
Cash and cash equivalents at beginning of year		188,420	201,467
Cash and cash equivalents at end of year	19	¢ 138,655	188,420

* See Notes 32 and 33.

The notes on pages 1 to 171 are an integral part of these consolidated financial statements.


Catalina Vargas Corrales
Manager Corporate Services


Jesús Orozco Delgado
Head of the Finance Department


Jermy Sánchez Umaña
Accounting Process Coordinator

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

December 31, 2018
(With corresponding figures for 2017)

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 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. (CVCR), 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, 2018.

ICE's primary activity is the development of energy producing sources, including the supply of electricity and telecom services. For electricity services, ICE has the exclusive right to generate, transmit and distribute electricity in Costa Rica, with limited exceptions to private companies, municipal entities and rural cooperatives. For telecom services, ICE holds a concession to develop and promote telecommunications services in Costa Rica, offering a wide range of services for sectors related to individuals, homes and companies, including fixed and mobile telephone services, both for voice and data. Fixed services include traditional landline services, public phones, internet access, and television. Mobile services include prepaid and postpaid voice and data services. 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 (including dedicated lines), internet access, and public and international telephone services are regulated by Superintendencia de Telecomunicaciones (SUTEL) [Office of the Superintendent of Telecommunications]. Electricity services are regulated directly by Autoridad Reguladora de los Servicios Públicos (ARESEP) [Costa Rican Public Utilities Regulatory Authority].

(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 active personnel because Grupo ICE provides its accounting and administrative services.

- Cable Visión de Costa Rica, S.A.

Cable Visión de Costa Rica, S.A. (CVCR) was organized on January 19, 2001 and acquired on December 5, 2013. Its main activity 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.

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).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)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 Grupo 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 were authorized for issue by Grupo ICE's management on May 28, 2019.

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 on each reporting date:

Items	Measurement bases
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
Net defined benefit liabilities	Fair value

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 4. Functional and presentation currency**

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

(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 29 – Lease classification
- Note 35 – Financial risk management.

(ii) Assumptions and estimation uncertainties

As of December 31, 2018, 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 next financial year is included in the following notes:

- Note 14 – Measurement of the allowance for obsolete inventory
- Notes 11 and 17 – Measurement of the allowance for doubtful accounts
- Note 21 – Measurement of defined benefit obligations: key actuarial assumptions
- Note 36 – Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of economic resources.

(iii) Measurement of fair values

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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

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

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

Note 35 – Financial risk management includes additional information on the assumptions made when measuring fair values.

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 (IFRS) 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 IFRS 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.

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 IFRS in the year ending December 31, 2023.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Through Decree No. 41039-H dated February 1, 2018, published in Official Gazette No. 92 in May 2018, the Ministry of Finance established a new term for the closing of any existing gaps related to IFRS in the Costa Rican public sector. The decree indicates that institutions with gaps associated with current accounting practices and the practices required according to international standards should implement such regulations no later than January 1, 2020.

Parallel to the definition of the term established in Decree No. 41039-H for completion of the implementation of the international regulations, the Office of the Attorney General of the Republic, through Official Letter PGR-C-095-2018 dated May 9, 2018, issued binding criteria in the response to a consultation filed by ICE on the retroactive application of the regulations. This official letter establishes that if there are execution agreements in progress that were formalized under other regulations and another accounting framework in effect at the time of signing of the agreements, such conditions cannot be changed negatively for Grupo ICE due to the implementation of IFRS.

Therefore, lease agreements, BOT (Build, Operate and Transfer) agreements and trusts existing as of the date of issue of these consolidated financial statements will remain under the accounting standards in effect at time of signing of the agreements until maturity. New related agreements, subscribed starting January 1, 2020 will be recorded in conformity with IFRS.

As a result of the aforementioned decrees by the Ministry of Finance, since 2016, ICE began to gradually adopt IFRS, by incorporating in its accounting policies the changes required to adjust those policies to the technical requirements of those accounting standards.

Such gradual adoption is documented through the issue of accounting criteria that include technical requirements indicated in IFRS 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 existing gaps between the accounting basis used by ICE and IFRS in effect as of 2015. Accordingly, as of the date of these consolidated financial statements, the IFRS 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 21	The Effects of Changes in Foreign Exchange Rates	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 12	Income Taxes	
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 2018 separate financial statements include the following changes in accounting policies:

(a) **Recognition of assets and liabilities related to import purchase orders:**

The purpose of the implementation of this policy is to define the timing of the recognition and measurement of the assets and liabilities related to the issue of import purchase orders as established in IAS 39 *Financial Instruments – Recognition and Measurement*.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Accordingly, liabilities are recognized when there is a final commitment to purchase the assets, and the risks and rewards of the transacted asset have been transferred, or until at least one of the parties has honored its obligations in accordance with the contracts and with International Commercial Terms (Incoterms).

Gradual implementation of IFRS

The main purpose of this gradual implementation is to adjust the accounting process for a full adoption of IFRS. 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 IFRS 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.

Note 7. Summary of significant accounting policies

The accounting policies set out below have been consistently applied to the periods presented in these consolidated financial statements. In 2018, 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 consolidated financial statements for 2017, as indicated in note 33.

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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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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 <i>(i) Business combinations</i>	

Grupo ICE recognizes a business combination when the acquirer (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 acquiree; 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

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:

Subsidiaries	Country	Ownership interest as of December 31,	
		2018	2017
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. (CVCR)	Costa Rica	100%	100%
Gestión de Cobro Grupo ICE, S.A.	Costa Rica	100%	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 Grupo 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.

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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

All transactions and events must be recorded in the accounting books in a timely manner and in chronological order in the consolidated 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.

(ii) Foreign currency transactions

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 date of the transaction using the sell rate set by BCCR for operations with the non-banking public sector. Foreign exchange differences resulting from the application of this procedure are recognized in profit or loss for the year in which they occur.

Foreign currency transactions are translated into ICE's functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency using the sell exchange rate set by BCCR for operations with the non-banking public sector.

(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 consolidated 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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

When a change in a policy 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.

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 consolidated financial statements are authorized for issue. Significant errors originating from prior periods are corrected retrospectively in the consolidated 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 consolidated 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).

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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 no waiver is in place before the closing date of the consolidated financial statements and when the waiver is not for at least the following 12 months, the total balance of the corresponding debt must be classified in the short term. If Grupo ICE obtains a waiver from that non-compliance on a date subsequent to the closing date of the consolidated financial statements, it must be disclosed as it is deemed to be significant to the consolidated financial statements as a whole. However, this event subsequent to the closing date of the consolidated financial statements does not exempt Grupo ICE from classifying the total debt as short-term (enforceable) debt.

(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.

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.

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.

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

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.

Fair value hedges:

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

- Changes in the fair value of the hedging derivative, measured at a specific date, according to the agreed conditions and market conditions, are recognized in profit or loss for the period.
- 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.

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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 profit or loss for the period.

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.

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.

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- The transaction is not expected to occur, in which case any accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, are reclassified from equity to the consolidated statement of income and expenses and other comprehensive income as a reclassification adjustment; the derivative will be also liquidated, affecting the corresponding accounts for valuation of the financial instrument, banks, and gains or losses in the statement of income and expenses due to disposal of the instrument.

(d) Non-current asset policies(i) Property, plant and equipmentOperating assets and other operating 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 and other operating assets”. Assets used in administrative and operating activities and expected to be used for more than one accounting period are booked as “Other operating assets”.

These assets are recorded at adjusted cost (historical cost plus revaluation adjustment). Subsequent to the determination of the 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.

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 (related to operating leases and BOT agreements) transferred to ICE as a result of the execution of purchase orders or the termination of BOT agreements are recorded according to the financial value at the date that those assets are received, according to the present value of the cash flow projection, in the useful life of those assets. The consideration will be recognized with an effect on profit or loss for the period as “Other income.”

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.

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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.

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 "Operating assets under finance leases."

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.

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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.

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

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

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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

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

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

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.

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

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.

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 or during the construction of the works, 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 bank loans and accounts due to suppliers, acquired for construction work in progress are not capitalized during the execution of the works.

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

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

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

Inventory for investment

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

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. "Inventory for investment" is included under "Property, plant and equipment."

Inventory for investment is valued through the moving average cost method.

Inventory, equipment, or spare parts transferred to Grupo ICE before 2016 are controlled by means of an inventory-without-valuation category, provided that the costs of such assets were previously included in the amount for the purchase of electricity or lease payments and also recognized by Grupo ICE over the term of the agreement in profit or loss for the period.

(ii) Intangible assets

Recognition and measurement

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

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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According to this policy, intangible assets are as follows:

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

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

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

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- 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.

Expenditure subsequent to acquisition of intangible assets are only booked as intangible assets if they meet the aforementioned recognition requirements; otherwise, they are recognized as an expense for the period.

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, according to the term set forth in the tax regulations, to intangible assets for software licenses, applications and systems, for which no evidence exists of contractual or legal rights for their use and, also, when the responsible area has no supporting information on the assets' useful lives.

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

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

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

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

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

(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.

For impairment testing, 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.

ICE identified two separate CGUs: operations in the Electricity Segment and in the Telecom Segment, considering independent cash flows 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. The designation of assets must be reviewed 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.

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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).
- 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 (investments in subsidiaries, joint operations and others)

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

Investments in 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 consolidated financial statements once the right to receive such dividends is established.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Loans granted with terms of more than one accounting period are booked as “Non-current notes and other accounts receivable,” while loans granted with a maturity of one year or less are classified as “Current notes and other accounts receivable.”

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

Notes and other accounts receivable must be settled when the rights are extinguished or transferred.

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

(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 “Non-current investments in financial instruments”.

Non-current financial investments 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.

Non-current financial investments are settled when the rights are extinguished.

(vii) Deferred tax (deferred tax assets and liabilities)

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that Grupo ICE is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the future; and

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reviewed to the extent that it is probable that sufficient tax profits are available.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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

(e) Current asset policies

(i) Operating inventory

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

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.

Operating inventory is valued using the moving average cost method.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Inventory, equipment, or spare parts transferred to ICE before 2016, once BOT agreements or operating lease agreements are completed, are controlled by means of an inventory-without-valuation category, provided that 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. Subsequent to that period, they are booked at fair value.

Inventories acquired for sale 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.

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 works or used in operations, are disposed of due to obsolescence or impairment in warehouses, are returned to suppliers, or are sold.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(ii) Notes and other accounts receivableNotes receivable

Loans granted to third parties with a term of one year or less are booked as “Notes receivable” and are measured 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.

Non-trade receivables (other 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.”

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

For other non-trade receivables, a fixed amount to cover 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.

Advance payments to creditors

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

(iii) Temporary investments

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

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Available-for-sale financial 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.

Financial 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 the 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 (PIPCA) [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 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 by the businesses” are derecognized 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 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, which result from mismatches in the application of the Variable Fuel Cost (CVC) Methodology. Such 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. This term may vary in accordance with subsequent communications from the regulatory authority.
- 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 over the term established by the regulatory authority. Such 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. This 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)

- 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 cost is amortized and presented in the consolidated statement of income and expenses and other comprehensive income over the term established by the regulatory authority to recover such costs through rate adjustments. This 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) Cash and cash equivalents

“Cash and cash equivalents” include:

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

(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 ordinary share capital.

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

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

(ii) 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.

(iii) 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 "Valuation of financial instruments".

When an investment is classified as available for sale, it is recorded as "Valuation of financial instruments".

The "Valuation of financial instruments" is liquidated when the instrument matures, is traded or sold.

(iv) 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

(vi) Surplus (deficit), net

The result of offsetting the income and expenses accounts at year-end is booked under “Surplus (deficit), net”.

ICE’s “Surplus (deficit), net” and the net profit or loss of its subsidiaries at year-end is transferred to the “Development reserve” and “Retained earnings” equity accounts, respectively.

(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” in the non-current liabilities section. 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 “Loans payable” in the non-current liabilities section.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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 maturity term of the liabilities.

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

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

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

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

(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" in the non-current liabilities section.

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

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Obligations with different entities arising from the ordinary course of business with settlement dates of more than one year are recognized as “Non-current finance lease obligations”. The portion to be settled in one year or less is recognized in the current liabilities section.

“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 current portion and when Grupo ICE amortizes or settles any amount owed.

(iv) Provisions

Provisions are recognized when the following conditions are met:

- a) there is a present obligation (legal or constructive) as a result of a past event
- b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- c) 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 reporting period close, taking into account the corresponding risks and uncertainties.

Provisions must be reviewed at the end of each reporting period and be adjusted accordingly to reflect the best estimate available.

Provision for employee benefits*Post-employment benefits – Severance benefits**For permanent employees:*

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

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Beginning December 2018, the rules that Grupo ICE applies to pay benefits due to the termination of the employment agreement (severance benefits) are based on the *Law to Strengthen Public Finances* (Law No. 9635). Pronouncement from Grupo ICE provides that when the law enters into effect on December 4, 2018, employees with at least 12 years of service will have the right to receive up to a maximum of 12-year severance benefits. All other employees will have the right to receive up to a maximum of 8-year severance benefits.

For personnel hired under payroll modality 08 established in Grupo ICE's Autonomous Labor Regulations (RAL), in no event shall such severance benefits be paid beyond the last eight years of employment.

The obligation amount for the defined benefit is calculated by a qualified actuary using the projected unit credit method.

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

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

For project employees:

Project employees are hired to execute projects developed by Grupo ICE and are terminated once the work is completed. To cover the employees' severance benefits, an accrual of 9% of the employees' monthly gross salary is recorded, which in turn gives rise to the recording of an expense.

Post-employment benefits – Severance benefits

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".

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(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 transfer of transmission assets (BOT), when the asset is received as property of ICE, according to the regulation, is recorded as “Non-current accounts payable.”

“Non-current accounts payable” are valued at the total amount payable under contractual obligations.

A partial or full decrease in “Non-current accounts payable” is recognized when they are transferred to the current 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”.

Non-current 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) Other provisions

Grupo ICE recognizes provisions when the following conditions are met:

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

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Legal provisionsa. Litigation

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

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

b. 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, i.e. the asset related to that right will be recorded only when the asset's receipt is virtually certain. In such event, the asset must be recorded separately from the provision liability.

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.

Grupo 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. 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.

(viii) Other non-current liabilitiesSecurity 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".

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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(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 non-current financial debt, are booked under "Loans payable". "Current loans payable" is booked at the face value of the underlying contracts.

A partial or full decrease in "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 "Current 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, according to the purchase order (local, import, or services), are booked as "Current accounts payable".

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

- Import purchase orders: when there is a final commitment to purchase goods (i.e. an import purchase order) and the risks and rewards of the transacted asset have been transferred, or at least one of the parties has performed its obligations according to the agreements or Incoterms.
- Local and services purchase orders: when the good or service is accepted by the administrator of the agreement and the corresponding invoice by the supplier is presented.

The portion of non-current accounts payable that will be settled in one year or less is recorded in the current liabilities section.

(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.

A partial or full decrease in “Current accounts payable” is recognized when the entity 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 obligations for employee payroll (both ICE and project employees), statutory Christmas bonus, back-to-school bonus, vacation days, and occupational hazard are recognized as “Accrued employer obligations payable.”

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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

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

d) Occupational hazard

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

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.

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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

(j) Operating income policies

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

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 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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:

- 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

(k) Operating cost policies

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

(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.

(ii) Operation and maintenance of leased equipment

The cost of leasing, operating, and maintaining productive assets owned by third parties and used to provide electricity and telecom services is recorded under "Operation and maintenance of leased equipment."

Agreements for leasing of telecom and electricity equipment are recorded and classified based on an analysis of classification policies established for operating and finance leases.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Operating lease payments are recognized over the term of the lease in accordance with the contractual terms and conditions. Minimum lease payments made under finance leases are distributed between interest and the principal of the liability.

The realized cost of fuels for thermal power generation, related to third-party owned power plants, 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."

(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.

(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.

(I) 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

“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.

(ii) Selling expenses

“Selling expenses” include:

- 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.

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

(iv) Pre-investment studies

“Pre-investment studies” include:

- 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- 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 expenses

“Supplemental expenses” include:

- Other expenses incurred by Grupo ICE to ensure the quality of the construction and operation of works owned by third parties 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”¹ planned and controlled by ICE.

Supplemental operating expenses are measured at historical cost.

(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 measured at historical cost.

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

Income arising from activities other than normal operations, including returns on securities, cash balances in financial entities, is recorded as “Investment income.”

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

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

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

(ii) Finance costs

"Finance costs" include:

- Costs arising from loans, placement of securities (bonds), investments, or any other obligation used for Grupo ICE's management purposes.
- "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 measured at amortized 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**

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

	As of December 31,	
	2018	2017 (Restated)*
<u>Cost:</u>		
Operating assets	¢ 7,255,880	7,219,978
Operating assets and other operating assets under finance leases	844,643	844,271
Other operating assets	400,660	404,622
Total operating assets - cost	8,501,183	8,468,871
<u>Accumulated depreciation:</u>		
Operating assets	3,670,107	3,667,673
Operating assets and other operating assets under finance leases	35,577	21,092
Other operating assets	302,040	294,587
Total accumulated depreciation of operating assets – cost	4,007,724	3,983,352
Operating assets, net	4,493,459	4,485,519
<u>Other assets:</u>		
Construction work in progress	395,259	381,010
Inventory for investment projects	134,627	134,647
Total other assets	529,886	515,657
	¢ 5,023,345	5,001,176

(*) See Note 32.

(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:

	As of December 31, 2016 (Restated) *	Additions and capitalizations	Disposals	Adjustments, reclassifications and transfers	As of December 31, 2017 (Restated) *	Additions and capitalizations	Disposals	Adjustments, reclassifications and transfers	As of December 31, 2018
Land	161,291	664	(99)	467	162,323	43,895	(180)	(34,056)	171,982
Buildings	338,905	30,414	(63)	(1,588)	367,668	19,765	(1,204)	(6,693)	379,536
Hydroelectric power generation	2,359,727	17,457	(158)	1,324	2,378,350	71,565	(1,271)	(80,428)	2,368,216
Thermal power generation	168,369	463	(4)	(31)	168,797	87	(21,809)	-	147,075
Geothermal power generation	527,851	(8,952)	-	(332)	518,567	-	(6,039)	-	512,528
Wind power generation	12,480	-	(695)	-	11,785	-	-	-	11,785
Solar power generation	12,115	283	(29)	-	12,369	363	-	-	12,732
Substations	430,119	26,976	(5,287)	-	451,808	17,045	(6,628)	(25,412)	436,813
Transmission lines	329,945	25,753	(7,045)	-	348,653	14,391	(10,995)	(6,752)	345,297
Distribution circuits	809,147	32,073	(8,789)	10	832,441	272,041	(7,225)	(167,884)	929,373
Public lighting	43,137	2,806	(329)	(12)	45,602	2,560	(1,229)	(19,285)	27,648
Control, communication and infrastructure equipment	241,593	41,281	(3,586)	104	279,392	4,197	(1,534)	130	282,185
Transport	685,393	35,927	(4,783)	340	716,877	2,282	(1,954)	-	717,205
Access	407,388	75,848	(763)	2,911	485,384	2,421	(18,539)	-	469,266
Civil y electromechanical Platforms	186,299	16,642	(4)	17	202,954	449	-	-	203,403
Subtotal operating assets	220,895	22,702	(6,564)	(25)	237,008	3,711	(222)	339	240,836
	6,934,654	320,337	(38,198)	3,185	7,219,978	454,772	(78,829)	(340,041)	7,255,880
<u>Operating assets and other operating assets under finance leases:</u>									
Land	7,654	-	(50)	-	7,604	78	-	(192)	7,490
Buildings	29,940	-	-	-	29,940	-	-	-	29,940
Hydroelectric power generation	795,298	547	-	452	796,297	497	-	-	796,794
Transport	-	1,961	-	(1,961)	-	-	(11)	-	(11)
Access	9,887	1,379	-	(3,171)	8,095	-	-	-	8,095
Furniture and equipment	2,170	86	(1)	80	2,335	-	-	-	2,335
Subtotal operating assets and assets under finance leases	844,949	3,973	(51)	(4,600)	844,271	575	(11)	(192)	844,643
Other operating assets									
	382,917	39,443	(16,143)	(1,595)	404,622	8,502	(12,125)	(339)	400,660
	8,162,520	363,753	(54,392)	(3,010)	8,468,871	463,849	(90,965)	(340,572)	8,501,183

(*) See Note 34.

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Starting 2016, operating assets and other operating assets are recorded at adjusted cost, which substitutes the historical cost plus the revaluation adjustment. Consequently, the value of operating assets and other operating assets that are subject to tariff regulations is called adjusted cost, consisting of the historical cost plus the revaluation adjustment. The accumulated depreciation on the historical cost was also added, plus the depreciation of the revaluation. However, as of 2016 and during 2017, the subsidiary CNFL was in the process of updating the value of property, machinery and equipment through appraisals performed by independent appraisers, substituting the price index method, so that the values were used in the adoption of the aforementioned policy for Grupo ICE. During 2018, that subsidiary incorporated the effects of that update, with a recognition as of January 1, 2018, since it was impracticable to determine the effects of the correction in each specific period. The assets updated through the appraisals relate to hydraulic power generation, distribution circuit, public lighting and other properties including land, buildings, and substations that comprise the same asset class. The effects of the update are presented in the chart above and in the “Adjustments and transfers” column in the “Accumulated depreciation” chart. Additionally, as a result of the incorporation by the subsidiary of the effects of the appraisal and of the use of the adjusted cost, comprised by the historical cost plus the aforementioned revaluation adjustment, Grupo ICE adjusted the retained earnings in the amount of ¢130,727.

The “Operating assets under finance leases” account corresponds to the value of productive assets under agreements classified as finance leases. As of December 31, 2018, lease agreements are as follows:

i) 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 (see Note 20(c)).

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 agreement amounts to ¢239,500 and US\$435, with a lease term of 20 years (maturing in 2034). The half-yearly lease payment is based on the amount of payment of the trust debt owed to the lending banks of the UNO P.H. Reventazón Trust.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

ii) 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 agreement amounts to ₡27,550, with a lease term of 20 years (maturing in 2030).

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 20-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 (see Note 20(c)).

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 2018, the monthly installment ranged between ₡214 and ₡218 (2017: ₡199 and ₡216).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)*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 (maturing in 2034), with monthly payments based on the formula established in the addenda to the lease agreement (see Note 20(c)). During 2018, the monthly lease payment ranged between ¢186 and ¢254 (2017: ¢148 and ¢254).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notas a los Estados Financieros Consolidados
(In millions of colones)

(ii) Accumulated depreciation:

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

	Depreciation - cost	As of December 31, 2016 (Restated) *	Depreciation	Disposals	Adjustments, reclassifications, transfers	As of December 31, 2017 (Restated) *	Depreciation	Disposals	Transfers	As of December 31, 2018
Buildings		133,408	6,959	(13)	(280)	140,074	7,303	(698)	(14,675)	132,004
Hydroelectric power generation		1,030,300	39,858	-	2,658	1,072,816	39,279	(627)	(41,481)	1,069,987
Thermal power generation		88,121	3,272	(3)	(32)	91,358	3,407	(15,569)	-	79,196
Geothermal power generation		257,171	27,140	-	(5)	284,306	27,804	(3,259)	-	308,851
Wind power generation		9,399	2,121	(622)	-	10,898	45	-	-	10,943
Solar power generation		4,881	956	(28)	-	5,809	643	-	-	6,452
Substations		203,094	23,349	(2,241)	(165)	224,037	15,885	(3,122)	(11,047)	225,753
Transmission lines		110,858	8,554	(1,386)	(18)	118,008	9,373	(10,411)	(2,073)	114,897
Distribution circuits		425,132	19,425	(6,953)	(1,675)	435,929	34,019	(3,287)	(120,419)	346,242
Public lighting		20,590	2,382	(284)	(163)	22,525	1,472	(380)	(9,321)	14,296
Control, communication and infrastructure equipment		101,017	7,185	(3,337)	(301)	104,564	6,506	(1,374)	(128)	109,568
Transport		450,221	30,135	(2,854)	(5,027)	472,475	28,541	(1,912)	515	499,619
Access		318,351	37,248	(194)	624	356,029	46,048	(14,658)	-	387,419
Civil and electromechanical		158,969	13,135	(1)	(5)	172,098	14,734	-	-	186,832
Platforms		135,757	26,587	(5,749)	152	156,747	20,899	(220)	622	178,048
Subtotal operating assets		3,447,269	248,306	(23,665)	(4,237)	3,667,673	255,958	(55,317)	(198,007)	3,670,107
Operating assets and other operating assets under finance leases:										
Buildings		2,786	601	-	-	3,387	607	-	-	3,994
Hydroelectric power generation		976	12,869	-	(1,037)	12,808	11,844	-	-	24,652
Transport		-	19	-	(19)	-	9	-	-	9
Access		1,104	2,257	-	(649)	2,712	1,762	-	-	4,474
Furniture and equipment		1,909	276	-	-	2,185	263	-	-	2,448
Total operating assets and assets under finance leases		6,775	16,022	-	(1,705)	21,092	14,485	-	-	35,577
Other operating assets		287,897	20,810	12	(14,132)	294,587	19,559	(11,803)	(303)	302,040
		3,741,941	285,138	(23,653)	(20,074)	3,983,352	290,002	(67,320)	(198,310)	4,007,724

(*) See Note 34.

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

For 2018 and 2017, assets are depreciated using the following useful lives:

	Useful life (in years)
Buildings	4 to 50
Plant, machinery and equipment for power generation	20 to 40
Plant, machinery and equipment for telecommunications	3 to 30
Plant, machinery and equipment for public lighting	10 to 30
Access roads	50
Machinery and equipment	3 to 20

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2018 and 2017, movement in construction work in progress and inventory for investment projects is as follows:

	Construction work in progress	Internal consumption of services**	Subtotal	Inventory for investment projects	Total
As of December 31, 2016 <i>(restated)</i> *	¢ 435,085	(1,639)	433,446	169,622	603,068
Additions	254,253	92	254,345	151,442	405,787
Capitalizations	(316,889)	-	(316,889)	(186,417)	(503,306)
Interest and commissions	10,108	-	10,108	-	10,108
As of December 31, 2017 <i>(restated)</i> *	382,557	(1,547)	381,010	134,647	515,657
Additions	188,865	1,058	189,923	102,347	292,270
Disposals (a)	(109,921)	-	(109,921)	-	(109,921)
Capitalizations	(70,273)	-	(70,273)	(102,367)	(172,640)
Interest and commissions	4,520	-	4,520	-	4,520
As of December 31, 2018	¢ 395,748	(489)	395,259	134,627	529,886

* See Note 32.

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

(a) Includes the disposal of the El Diquís Hydroelectric Power Project in the amount of ¢88,556 (see Note 29 (c)).

As of December 31, 2018, the cost of Grupo ICE's capitalized loans amounted to ¢4,520, and the capitalization rate used to determine the amount of costs of loans subject to capitalization is 2.40% (2017: 6.74%).

(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:

(a) Las Pailas II Geothermal Project

As of December 31, 2018, the balance of ₡166,981 (2017: ₡140,269) 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.

(b) Borinquen Geothermal Project

This project includes costs in the amount of ₡35,088 (2017: ₡29,681) 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. The Borinquen 1 project is expected to begin operations in January 2024.

(c) Business services installation

Business services installation in the amount of ₡16,233 (2017: ₡4) consists of a "Commercial management and generation of income from mobile services telecommunications" platform, comprised of a set of technological applications or components that allow performing commercial processes, mediation, appraisal, billing, accounting, and other systems comprising the Business Support System (BSS) environment of the mobile services.

(d) Acquisition of assets - senior management

As of December 31, 2018, the accumulated balance of ₡11,191 (2017: ₡16,612) corresponds to the investment 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. A partial capitalization was booked in the intangible assets item.

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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(e) Extension of the LTE network

As of December 31, 2018, the balance ¢10,606 (2017: ¢11,136) corresponds to costs incurred in the execution of the LTE network project. The project has a total budget of US\$47.6. 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.

(iv) Changes in classification

During 2018, Grupo ICE modified the classification of other assets to reflect the total construction work in progress, since these costs include the basic and final design of the works and the technical, economic and financial studies thereof. Comparative amounts in the separate statement of financial position were reclassified for consistency. This resulted in the reclassification of the amount of ¢99,932 from "Design and planning of the execution" to "Construction work in progress" and ¢28,116 from "Material in transit for investment" to "Inventory for investment projects."

(v) Temporarily inactive property, plant and equipment

As of December 31, 2018, equipment with a carrying amount of ¢20,297 was temporarily inactive. Grupo ICE plans to operate these assets during 2019.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Intangible assets are as follows:

		As of December 31,	
		2018	2017
<u>Intangible assets with a definite useful life:</u>			
Licenses, systems and applications (1)	¢	135,360	113,216
Submarine cable rights (2)		66,392	66,392
		<u>201,752</u>	<u>179,608</u>
<u>Accumulated amortization:</u>			
Licenses, systems and applications (1)		(103,035)	(84,520)
Submarine cable rights (2)		(39,655)	(35,089)
		<u>(142,690)</u>	<u>(119,609)</u>
Intangible assets with a definite useful life		<u>59,062</u>	<u>59,999</u>
<u>Intangible assets with an indefinite useful life:</u>			
Rights of way and easements (3)		29,809	29,266
Goodwill net of impairment loss		2,813	2,813
		<u>32,622</u>	<u>32,079</u>
	¢	<u>91,684</u>	<u>92,078</u>

(Continued)

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

As of December 31,

		<u>Licenses, systems and applications</u>		<u>Submarine cable rights</u>		<u>Rights of way and easements</u>		<u>Goodwill</u>		<u>Totals</u>	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<u>Cost:</u>											
	Opening balance	113,216	106,758	66,392	64,758	29,266	28,742	2,813	2,813	211,687	203,071
	Additions	27,142	24,997	-	-	531	541	-	-	27,673	25,538
	Transfers	(410)	27	-	1,634	12	-	-	-	(398)	1,661
	Disposals	(4,588)	(18,566)	-	-	-	(17)	-	-	(4,588)	(18,583)
		135,360	113,216	66,392	66,392	29,809	29,266	2,813	2,813	234,374	211,687
<u>Accumulated amortization:</u>											
	Opening balance	84,520	85,309	35,089	29,713	-	-	-	444	119,609	115,466
	Amortization - expense	19,128	15,207	4,566	1,136	-	-	-	-	23,694	21,673
	Amortization - investment	4,141	-	-	-	-	-	-	-	4,141	(5,330)
	Transfers	(398)	1,652	-	4,240	-	-	-	(444)	(398)	5,448
	Disposals	(4,356)	(17,648)	-	-	-	-	-	-	(4,356)	(17,648)
		103,035	84,520	39,655	35,089	-	-	-	-	142,690	119,609
		32,325	28,696	26,737	31,303	29,809	29,266	2,813	2,813	91,684	92,078

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The amortization of intangible assets — licenses, software and applications, and submarine cable indefeasible rights of use (IRU) — is calculated by Grupo ICE 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.

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 one to ten years.

(1) Licenses, systems and applications

Licenses, software, and applications are amortized in the operating costs and operating expenses accounts presented in the consolidated statement of income and expenses and other comprehensive income, namely: operation and maintenance, operation and maintenance of leased equipment, production management, administrative, selling, preliminary studies, pre-investment studies, and supplemental expenses.

As of December 31, 2018, with the entrance into effect of the first phase of implementation of the Administrative Financial Modernization Program (PMAF) and having the main operating modules of the ERP integrated solution, which represent 60% of the modules acquired for the full solution, a partial capitalization was performed in the amount of ¢12,717. This software is amortized over a 10-year term, ending in 2029.

(2) Submarine cable rights

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 Grupo ICE’s communication equipment on land. Therefore, it is reclassified from “Operating assets - transport” to “Intangible assets.”

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

(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 telecommunications 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:

	As of December 31,	
	2018	2017 (Restated)*
<u>Joint venture:</u>		
Tecomunica, S.A. - Nicaragua; 500 ordinary shares with a par value of C\$101,000; 50% ownership interest (1) ¢	1,150	900
<u>Other investments:</u>		
Consorcio Cable Maya (2)	15,085	15,085
Toro III Hydroelectric Project Trust (3)	11,203	11,203
Empresa Propietaria de la Red, S.A.; 6,500 ordinary shares with a par value of US\$1,000; 11.11% ownership interest (4)	3,124	3,124
Red Centroamericana de Fibras Ópticas, S.A.; 280 ordinary shares with a par value of US\$1,000; 11.11% ownership interest (5)	143	143
Other	63	194
	29,617	29,753
¢	30,768	30,649

(*) See Note 32.

(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 Tecomunica, S.A., with the purpose of selling and marketing telecommunication services.

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

	As of December 31,	
	2018	2017
Percentage ownership interest	50%	50%
Non-current assets:	¢ 1,759	1,186
Current assets:	1,087	896
Non-current liabilities	(47)	(31)
Current liabilities	(500)	(250)
Net assets (100%)	2,299	1,801
Group's share of net assets (50%)	1,150	900
Carrying amount of interest in joint venture:	¢ 1,150	900

	As of December 31,	
	2018	2017
Revenue from ordinary activities	¢ 1,410	1,771
Other income	55	27
Cost of sales	613	485
Operating expenses	796	625
Interest expense	(3)	1
Income tax expense	(4)	13
Profit or loss and total comprehensive income (100%)	115	23
Profit or loss and total comprehensive income (50%)	57	12
Group's share of total comprehensive income	¢ 57	12

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)(2) Consortio 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. Grupo ICE owns 20.87% of the investment in MIU (minimum investment unit) rings for both years.

(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 (Administrative Board of the Municipal Electricity Service of Cartago, JASEC), 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 (50% each) in respect of rights and obligations. To execute the project, in January 2008, ICE and JASEC subscribed a trust agreement with Banco de Costa Rica, whereby ICE and JASEC act as trustors and beneficiaries and 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.

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, 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. Upon completion of works, a lease agreement was subscribed by the trust, ICE, and JASEC under an operating agreement.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

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 with a par value of US\$1,000. ICE owns 6,061 shares and CNFL owns 439 shares, for a total of 6,500 shares, amounting to US\$6.5, equivalent to ¢3,124, (11.11% ownership interest) of Grupo ICE valued at cost of purchase.

(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 (equivalent to 280 shares) and 6.76% to CNFL.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 11. Notes and other accounts receivable, net**

Notes and other accounts receivable are as follows:

	As of December 31,					
	2018			2017		
	Non-current	Current	Total	Non-current	Current	Total
<i>Notes receivable:</i>						
Loan to autonomous entities (1)	2,994	-	2,994	2,290	-	2,290
Payment arrangements	-	549	549	869	172	1,041
Other	-	1,671	1,671	-	1,902	1,902
	<u>2,994</u>	<u>2,220</u>	<u>5,214</u>	<u>3,159</u>	<u>2,074</u>	<u>5,233</u>
<i>Non-trade receivables:</i>						
Other non-trade receivables (2)	-	20,186	20,186	-	11,590	11,590
Government (3)	-	18,281	18,281	-	9,375	9,375
Interest accrued on investments	-	2,534	2,534	-	3,371	3,371
Other	-	2,709	2,709	-	-	-
	<u>-</u>	<u>43,710</u>	<u>43,710</u>	<u>-</u>	<u>24,336</u>	<u>24,336</u>
Other accounts receivable	-	14,128	14,128	-	10,414	10,414
Allowance for non-trade receivables (4)	-	(1,893)	(1,893)	-	(1,347)	(1,347)
Non-trade receivables, net	<u>-</u>	<u>55,945</u>	<u>55,945</u>	<u>-</u>	<u>35,477</u>	<u>35,477</u>
Tax credits and/or withholdings	-	7,370	7,370	-	8,371	8,371
<i>Advances to creditors:</i>						
Use agreements (5)	-	26,015	26,015	-	20,551	20,551
Government	-	3,529	3,529	-	1,669	1,669
Employees	-	233	233	-	103	103
	<u>-</u>	<u>29,777</u>	<u>29,777</u>	<u>-</u>	<u>30,694</u>	<u>30,694</u>
¢	<u>2,994</u>	<u>95,312</u>	<u>98,306</u>	<u>3,159</u>	<u>66,171</u>	<u>69,330</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)(1) Loan to autonomous entities

A loan agreement was subscribed by ICE and EPR to repay IDB loan No. 1908 for US\$4.5, equivalent to ¢2,009 (2017: US\$4.5, equivalent to ¢2,290), plus the amount of ¢1,671 corresponding to the current asset in 2018. The total term of the loan is 25 years starting November 24, 2010, with a five year grace period, payable half-yearly, bearing an annual variable interest rate equivalent to 6-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.47% (2017: 3-month LIBOR of 1.36% + 0.12% funding margin + 0.85% IDB's lending spread, for a total of 2.33%), unsecured.

(2) Other non-trade receivables

As of December 31, 2018, this balance includes interest and commissions in the amount of ¢2,534 (2017: ¢3,078), and receivables for services with unregulated rates in the amount of ¢11,704 (2017: ¢10,067).

(3) Government

As of December 31, 2018, the movements generated for ¢18,281 (2017: ¢9,375) are mainly due to services rendered for Gobierno Digital invoices, Guarantee and Savings Fund expenses, leases and sale of goods and services.

(4) Allowance for non-trade receivables

As of December 31, 2018, movement in the allowance for non-trade receivables is as follows:

		December 31,	
		2018	2017
Opening balance	¢	1,347	7,186
Used during the year		-	(5,840)
Allowance expense		546	1
Closing balance	¢	<u>1,893</u>	<u>1,347</u>

(5) Use agreements

The balance of ¢26,015 (2017: ¢20,551) includes a balance of ¢20,102 (2017: ¢20,540) related to the lease payments paid in advance on the Garabito Thermal Power Plant lease agreement, subscribed by ICE and Banco de Costa Rica (BCR) as trustee of the Garabito Thermal Power Plant Securitization Trust.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

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 ₡20,102.

Changes in classification

During 2018, Grupo ICE modified the classification of notes and other accounts receivable in conformity with the analysis performed by Grupo ICE in relation to the operating flows of SAP-ERP. The Garabito Thermal Power Plant must be considered as an advance; therefore, it is enabled in the new chart of accounts. The comparative amounts in the consolidated statement of financial position were reclassified for purposes of consistency. This resulted in the reclassification of ₡22,323 from "Prepaid expenses" and "Trade receivables" to "Advances paid to creditors."

Note 12. Investments in financial instruments

Investments in financial instruments mainly correspond to investments in bonds (debt securities) with returns ranging between 5.70% and 10.95% per annum (2017: ranging between 5.53% and 10% per annum) in colones and between 4.83% and 10% per annum (2017: 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 ₡47,678 and denominated in US dollars in the amount US\$120 (equivalent to ₡73,660), (2017: securities denominated in colones in the amount of ₡82,359 and denominated in US dollars in the amount of US\$50, equivalent to ₡28,053), maturing between January 2020 and April 2028 (2017: January 2018 and April 2028). Grupo 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:

	As of December 31,	
	2018	2017
Government (Bond)	₡ 89,371	48,096
Banco Popular y de Desarrollo Comunal (Bond)	21,106	19,878
Banco Central de Costa Rica (Bond)	4,878	14,469
Banco Nacional de Costa Rica (Bond)	-	9,725
Investment costs	-	1,568
Other	5,983	16,676
	<u>₡ 121,338</u>	<u>110,412</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		As of December 31,	
		2018	2017
Contribution to the Supplemental Pension System	¢	132,874	132,700
Contribution to the Guarantee and Savings Fund		89,338	88,356
	¢	<u>222,212</u>	<u>221,056</u>

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.

As of December 31, 2018, according to the financial statements of the Supplemental Pension System vehicle, the provision or obligation for pensions in payment process amounts to approximately ¢139,831 (2017: ¢118,745), and net assets available for future pension benefits amount to approximately ¢182,537 (2017: ¢185,584). These figures were calculated by an independent actuary, based on the projected unit credit method. The main actuarial assumptions considered in the calculation are as follows:

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	December 31,	
	2018	2017
Real discount rate	4.25%	4.25%
Nominal discount rate	8.42%	8.42%
Expected salary increase rate	2%	2%
<i>Average retirement age of current employees (years):</i>		
Men	62	62
Women	60	60
Long-term inflation rate	4%	4%

Note 14. Inventories, net

Inventories are as follows:

	As of December 31,	
	2018	2017
Operating inventory	¢ 110,684	97,986
Materials and equipment held in custody	30,138	25,055
Materials in transit for operation	533	4,223
	141,355	127,264
Allowance for valuation of inventory	(28,989)	(29,974)
	¢ 112,366	97,290

Inventories recognized as expenses during 2018 amount to ¢29,161 (2017: ¢24,818).

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

	December 31,	
	2018	2017
Opening balance	¢ 29,974	34,591
Used during the year	(2,757)	(12,742)
Allowance expense	1,809	3,742
Net realizable value	(37)	4,383
Closing balance	¢ 28,989	29,974

During 2017, the net realizable value policy was implemented for ICE's inventories. This required an accounting adjustment for mobile terminals available for sale, both for the current and prior periods, using an alternative base at each reporting date (see Note 3).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 15. Temporary investments**

As of December 31, 2018, Grupo ICE's available-for-sale investments (term certificates of deposit, monetary stabilization bonds, securities and private entity bonds) amount to ¢48,740 of which ¢45,054 are denominated in colones and ¢3,686 in US dollars (2017: available-for-sale investments in the amount of ¢51,812, of which ¢45,821 are denominated in colones and ¢5,991 in US dollars) bearing interest at rates ranging between 4.45% and 10% per annum (2017: between 1.30% and 8.95% per annum), and maturing between one and 12 months for both years.

As of December 31, 2018, it has held-to-maturity investments, such as zero-coupon Central Bank bonds, in the amount of ¢4,746 (2017: ¢2,694).

	As of December 31,	
	2018	2017
Available-for-sale investments	¢ 48,740	51,812
Held-to-maturity investments	4,746	2,694
Valuation of investments	(35)	(376)
	¢ 53,451	54,130

As of December 31, 2018, as a result of a valuation of available-for-sale investments, ICE recognized a net unrealized loss of ¢35 (2017: unrealized gain of ¢376).

Changes in classification

During 2018, Grupo ICE modified the classification of temporary investments, given that it maintained as non-current the full balance of instruments which are long-term in nature. Consequently, as of 2018 only the current portion of the current asset is reclassified. The comparative amounts in the consolidated statement of financial position were reclassified for purposes of consistency. This resulted in the reclassification of ¢23,890 from "Investments in financial instruments" and "Cash and cash equivalents" to "Temporary investments."

Note 16. Restricted funds

Restricted funds are as follows:

	As of December 31,	
	2018	2017
Guarantees in colones	¢ 470	849
Guarantees in US dollars	547	452
	¢ 1,017	1,301

(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:

	As of December 31,	
	2018	2017
Other non-trade receivables	¢ 133,504	156,884
Government	28,704	8,599
Private banks	70	-
Other	392	-
	<u>162,670</u>	<u>165,483</u>
Allowance for doubtful accounts	<u>(39,272)</u>	<u>(58,359)</u>
	<u>¢ 123,398</u>	<u>107,124</u>

Movement in the allowance for doubtful accounts is as follows:

	As of December 31,	
	2018	2017
Opening balance	¢ 58,359	55,336
Used during the year	(29,795)	(4,228)
Allowance expense	10,708	7,251
Closing balance	<u>¢ 39,272</u>	<u>58,359</u>

As of December 31, 2018, there is a decrease in the allowance due to the absorption of delinquent debt due to a change in the term of the statute of limitations.

Grupo ICE's exposure to credit risk, market risk and impairment losses from commercial debtors is disclosed in Note 35.

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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,	
	2018	2017
Mobile terminals and devices	¢ 34,619	31,242
Finance costs (1)	15,497	20,551
Other	655	(5,309)
	¢ <u>50,771</u>	<u>46,484</u>

(1) Finance costs

As of December 31, 2018, Grupo ICE has an amount of ¢15,497 (2017: ¢20,551) which corresponds to the obligation derived from the recording of the finance lease subscribed by ICE and Reventazón Hydroelectric Project Trust (see Notes 8 and 20(c)).

Note 19. Cash and cash equivalents

Cash and cash equivalents are as follows:

	As of December 31,	
	2018	2017
Cash on hand and in banks	¢ 108,394	85,461
Temporary investments	30,261	102,959
	¢ <u>138,655</u>	<u>188,420</u>

(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, 2018						
	Currency	Issuer	Type of financial instrument	Balance	Interest rate	Maturity
Held to maturity	Colones	Ministry of Finance	Zero-coupon bonds	5,000	6.00%	10/Jan/2019
		Popular SAFI	Investment funds	6,626	3.55% - 4.79%	07/Jul/2018- 30/Oct/2018
	US dollars	BICSA	Certificate of deposit	2,508	1.50% - 3.50%	18/Jul/2018- 07/Feb/2019
		BN FONDOS	Investment funds	778	1.98%	30/Oct/2018- Demand
Fair value		Popular SAFI	Investment funds	632	1.79% - 1.98%	21/Jul/2018- 30/Oct/2019
	US dollars	BICSA	Overnight deposits	12,562	0.40%	Demand
		F.I. ND INS liquidity	Investment funds	2	2.25%	Demand
		F.I. ND BCR mixed US dollars	Investment funds	2,153	2.40%	Demand
				30,261		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

				As of December 31, 2017			
	Currency	Issuer	Type of financial instrument	Balance	Face value	Interest rate	Maturity
<i>Available for sale</i>	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	-	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 funds	¢ 16	16	4.12%-4.38%	Demand
		US dollars Banco Internacional de Costa Rica	Overnight deposits	¢ 33,730	-	0.20%	Demand
		Banco Internacional de Costa Rica	Overnight deposits	¢ 2,385	-	0.20%	Demand
<i>Held to maturity</i>	Colones	Government	Zero-coupon Central Bank bond (over the counter)	¢ 4,015	4,017	4.51%	Oct-17
		Banco Popular y de Desarrollo Comunal	Investment fund	¢ 800	800	3.55%	Demand
		Banco de Costa Rica	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	Certificate of deposit	¢ 800	800	4.80%	Nov 17-Jan 18
		Banco Nacional de Costa Rica	Certificate of deposit	¢ 13	13	6.00%	Mar 16-Mar 18
		Banco Nacional de Costa Rica	Certificate of deposit	\$ 28	28	3.20%	Mar 16-Mar 18
		Banco Nacional de Costa Rica	Certificate of deposit	\$ 3	3	2.90%	Dec 16-Feb 18
		Banco Nacional de Costa Rica	Certificate of deposit	\$ 4	4	3.55%	Mar 17-Mar 18
	US dollars	Banco Internacional de Costa Rica	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
<i>Fair value</i>	Colones	SAFI Banco Nacional de Costa Rica	F.I. BN Dinero Superfondo colones, non-diversi	¢ 4,795	-	4.12% - 4.38%	Demand
		SAFI Banco de Costa Rica	F.I. BCR short-term colones, non-diversified	¢ 4,833	-	3.69% - 3.99%	Demand
		SAFI Instituto Nacional de Seguros	F.I. INS public liquidity colones, non-diversified	¢ 2,089	-	3.13% - 3.72%	Demand
		SAFI Banco Popular	F.I. Popular money market colones, non-diversi	¢ 242	-	4.40%	Demand
		SAFI BAC San José	F.I. BAC San José liquidity colones, non-diversi	¢ 2,305	-	4.20%	Demand
		SAFI Scotiabank de Costa Rica	F.I. Scotiabank public colones, non-diversified	¢ 431	-	4.03%	Demand
		SAFI Banco Nacional de Costa Rica	F.I. BN Dinero Superfondo colones, non-diversi	¢ 395	-	4.12% - 4.38%	Demand
		Banco de Costa Rica	Investment funds	¢ 343	-	3.53% - 3.77%	Demand
		SAFI Instituto Nacional de Seguros	F.I. INS public liquidity colones, non-diversified	¢ 227	-	3.13% - 3.72%	Demand
		Banco Popular y de Desarrollo Comunal	F.I. Popular money market colones, non-diversi	¢ 468	-	4.40%	Demand
	US dollars	SAFI BAC San José	F.I. BAC San José liquidity colones, non-diversi	¢ 272	-	4.17%	Demand
		Scotiabank de Costa Rica	F.I. Scotiabank public colones, non-diversified	¢ 85	-	4.32%	Demand
		SAFI Banco Nacional de Costa Rica	F.I. BN Dinero Fondo US dollars, non-diversifi	\$ 2	-	1.23% - 1.62%	Demand
		SAFI Banco de Costa Rica	F.I. BCR liquidity US dollars, non-diversified	\$ 1,995	-	1.82% - 1.88%	Demand
		SAFI Instituto Nacional de Seguros	F.I. INS public liquidity US dollars non-diversifi	\$ 3	-	1.76% - 1.89%	Demand
		SAFI Scotiabank de Costa Rica	F.I. Scotiabank public US dollars, non-diversifi	\$ -	-	1.52%	Demand
		Banco Nacional de Costa Rica	F.I. BN Dinero Superfondo US dollars, non-div.	\$ 3	-	1.23% - 1.62%	Demand
		Banco de Costa Rica	F.I. BCR liquidity US dollars, non-diversified	\$ 13	-	1.86% - 1.95%	Demand
		Instituto Nacional de Seguros	F.I. INS public liquidity US dollars, non-diversi	\$ 4	-	1.76% - 1.89%	Demand
		Scotiabank de Costa Rica	F.I. Scotiabank public US dollars, non-diversifi	\$ 6	-	1.53%	Demand
<i>Investment costs</i>	Colones	Cost of investment transactions	Cost of investment transactions	¢ 8	-	-	-
				¢ 102,959			

(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**

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

	Currency	Annual interest rate	Year of maturity	As of December 31,				
				2018		2017		
				Non-current	Current	Total	Non-current	Total
<u>Internal debt:</u>								
Bonds issue	¢	Variable between 7.70% and 9.43% and fixed at 11.41% (2017: variable between 5.95% and 9.10% and fixed at 11.41% and 11.45%)	2020-2035	¢ 282,484	-	282,484	262,529	262,529
Bonds issue	US\$	Fixed between 5.97% and 7.65% (for both years)	2019-2027	321,463	19,482	340,945	319,063	319,063
<u>External debt:</u>								
Bonds issue	US\$	Fixed between 6.38% and 6.95% (for both years)	2021-2043	607,818	-	607,818	569,722	569,722
				¢ 1,211,765	19,482	1,231,247	1,151,314	1,151,314

Securities payable (bonds) in US dollars amount to US\$1,557. These obligations are secured by a general ICE guarantee.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)****b. Loans payable***

Loans payable, subscribed in colones, US dollars and yen, are as follows:

		As of December 31,	
		2018	2017
<u>Internal debt:</u>			
Colones	¢	169,297	176,872
US dollars		47,917	47,397
<u>External debt:</u>			
Colones		105,034	82,530
US dollars		545,768	587,327
Yen		112,177	89,565
		<u>980,193</u>	<u>983,691</u>
Non-current		887,060	883,161
Current		93,133	100,530
	¢	<u>980,193</u>	<u>983,691</u>

As of December 31, 2017, the Inter-American Development Bank (IDB) performed a partial conversion from US dollars into colones of agreement No. 2747/OC-CR, subscribed on October 31, 2012, in the amount of US\$144, using an exchange rate of ¢574.12 to US\$1.00, reflecting a converted balance of ¢82,530.

Loans due to creditors are as follows:

		As of December 31,	
		2018	2017
<u>Internal debt:</u>			
State-owned banks	¢	212,681	217,581
Private banks		4,533	6,688
<u>External debt:</u>			
Private banks		757,009	746,823
Other creditors		5,970	12,599
	¢	<u>980,193</u>	<u>983,691</u>

Loans payable in US dollars and in yen amount to US\$978 and ¥20,177, respectively (2017: US\$1,115 and ¥17,604, respectively).

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

The total non-current portion of loans payable amounts to ¢887,060 (2017: ¢883,161), of which ¢849,124 correspond to the Electricity Segment and ¢37,936 to the Telecom Segment (2017: ¢831,514 and ¢51,647, respectively). The current portion of loans payable amounts to ¢93,133 (2017: ¢100,530), of which ¢77,112 corresponds to the Electricity Segment and ¢16,021 to the Telecom Segment (2017: ¢76,175 and ¢24,355, respectively).

The characteristics of loans payable are as follows:

	Interest rate	Currency	Term
	Variable between 8.40% and 9.70% (2017: variable between 7.80% and 10.50%)	¢	Maturing between January 3, 2022 and October 21, 2045
Internal debt	Variable between 6.25% and 8.31%, and fixed at between 5.95% and 8.50% (2017: variable between 5.81% and 8.60%)	US\$	Maturing between August 26, 2019 and September 13, 2043
	Variable 7.60% and fixed at 7.51% (for both years)	¢	Maturing between May 25, 2034 and October 15, 2037
External debt	Variable between 3.42% and 7.88%, and fixed between 0.70% and 6.40% (2017: variable between 2.25% and 6.40% and fixed between 0.70% and 5.60%)	US\$	Maturing between April 30, 2019 and September 15, 2040
	Fixed between 0.60% and 2.20% (for both years)	JPY	Maturing between April 20, 2026 and June 20, 2057

Total loans payable for ¢980,193 (2017: ¢983,691) include loans with a general ICE guarantee in the amount of ¢700,281 (2017: ¢653,662) and loans endorsed by the Government in the amount of ¢279,912 (2017: ¢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 EBITDA (in some cases including lease payments), such as EBITDA coverage ratio, net debt to total assets, etc.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Some of the loan agreements include the following clauses:

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

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) 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 noncompliance have occurred or continue to occur at the time of the proposed transaction, and the merger or consolidation is not the result of such noncompliance.
- b) ICE will not, and will not permit any of its subsidiaries to, sell, lease, transfer, or otherwise dispose of assets, 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 (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.
- 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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

- 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 noncompliance is not reasonably expected to have a substantial negative impact.

As of December 31, 2018, for those financial covenants related to loan agreements that were not met, the corresponding waiver was processed and approved. However, in the following cases the waiver was either not received, or it was received but not before December 31, 2018, and the coverage was not for the minimum period of 12 months.

(i) Terms and conditions of loan agreements - Cabei

As of December 31, 2018, loans payable (external debt in US dollars) include \$246,318 in operations with Cabei, on which a waiver was requested through note No. 0078-0580-2018, dated November 30, 2018, for the ratios "Debt + Finance leases / EBITDA + Finance lease installments" and "Consolidated EBITDA / Consolidated finance costs." Through official communication No. GERCR-071/2019, dated February 11, 2019, the bank granted the waiver for non-compliance with those ratios for reporting periods December 31, 2018, June 30, 2019 and December 31, 2019.

(ii) Terms and conditions of loan agreements - Banistmo

Grupo ICE made the corresponding inquiries to Grupo Bancolombia/Banco Banistmo, on November 22, 2018, to request a waiver for the financial indicators of clause 7.2 "Financial Obligations" of the loan agreement. The waiver was approved through an official communication dated December 12, 2018, which authorized the modification of the limit for "Maximum financed debt / EBITDA," going from 6.0 times to 7.0 times, until March 30, 2019.

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Notes to the Consolidated Financial Statements

*(In millions of colones)**(iii) Terms and conditions of loan agreements - IDB 1931 and The Bank of New York Mellon*

On November 9, 2018, a waiver was requested through note No. 5401-0339-2018, regarding non-compliance with the ratios “Net consolidated debt according to IFRS / Adjusted EBITDA according to IFRS,” to modify the limit from 5.30 times to 5.70 times for 2018; “Net consolidated debt according to GAAP – Adjusted EBITDA according to GAAP”; to modify the limit from 5.30 times to 6.10 times for 2018, and 5.45 times for 2019; “Net adjusted consolidated debt – Adjusted consolidated EBITDA” to modify the limit from 5.50 times to 5.70 times for 2018. In addition, through the note dated January 30, 2019, it was indicated that the waiver is only required for 2018, given that according to the updated financial projections for December, non-compliance will occur only in 2018 and not in 2019, as was indicated in the November note. Through an official communication dated February 21, 2019, the bank granted a waiver for the ratio “Net consolidated debt according to IFRS – Adjusted EBITDA according to IFRS,” authorizing a change in the limit for 2018, as requested (from 5.30 times to 5.70 times).

(iv) Terms and conditions of loan agreements - Scotiabank

A waiver was requested through note No. 0078-0548-2018 dated November 14, 2018, for the ratios “Consolidated debt / Consolidated EBITDA” to modify the limit from < 6 times to < 7.30 times for 2018 and 2019, and “net value” to modify the limit from > US\$3,300 to >US\$2,900 for years 2019 to 2021. Through official communication No. GERCR-071/2019 dated February 11, 2019, the bank granted the waiver for noncompliance with those ratios as of December 24, 2018, only for 2018.

(v) Terms and conditions of loan agreements - CAF

A waiver was requested through note No. 0078-0567-2018 dated November 26, 2018, for the ratios “Total liabilities / Equity,” to modify the limit from < 1.2 times to < 1.50 times for years 2018 to 2023 and for “Debt / EBITDA” to modify the limit from < 7 times to < 7.5 times for 2018. Through official communication VIN-142 dated December 21, 2018, the bank granted the waiver for noncompliance with such indicators only for year 2018, and up to June 30, 2019.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)**(vi) Terms and conditions of loan agreements - KFW*

A waiver was requested through note No. 0078-0563-2018 on November 22, 2018, for the ratios “Net consolidated debt according to IFRS / EBITDA,” to modify the limit for 2018 to < 5.65 times; “Net consolidated debt according to GAAP / EBITDA” to modify the limit for 2018 to < 6.04 times; “Net adjusted consolidated debt / EBITDA” to modify the limit for 2018 to < 5.65 times. Through an official communication the waiver is granted, including the authorization signatures from the bank.

Note 35 includes information regarding the Group’s exposure to interest rate risk, currency risk and liquidity risk.

(Continued)

(In millions of colones)

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

In relation to the UNO P.H. Reventazón Trust (see Note 8), on December 20, 2013, the Onshore Fiduciary (borrower) of the trust, the Senior Lenders (national and foreign banks) of the trust and the Bank of New York Mellon as Intercreditor Agent, signed a Common Terms Agreement (CTA), which establishes, among other: the conditions of disbursements, statements and guarantees, agreements, duties and obligations, events of default, and a series of covenants on environmental, legal, tax, financial, operational and business matters, among other, which the borrower (the trust) must comply with. On December 20, 2013, ICE signed a Side Letter Agreement with the trust, the Bank of New York Mellon and the Onshore Fiduciary, establishing a series of covenants in relation to its financial lease obligations related to the UNO P.H. Reventazón Trust.

Terms and conditions of finance lease obligations - Reventazón Hydroelectric Project

Through notes No. 0078-0518-2018 and No. 5401-0402-2018, dated November 5 and December 19, 2018, respectively, a waiver was requested for noncompliance with the ratios “Net consolidated debt according to IFRS / Adjusted EBITDA according to IFRS” to modify the limit from 5.30 times to 5.70 times in 2018, “Net consolidated debt according to GAAP / Adjusted EBITDA according to GAAP” to modify the limit from 5.30 times to 6.10 times for 2018, and 5.45 times for 2019; “Net adjusted consolidated debt – Adjusted consolidated EBITDA” to modify the limit from 5.50 times to 5.70 times for 2018. In addition, through the note dated December 19, 2018, it was indicated that the waiver is only required for 2018, given that according to the updated financial projections for December, non-compliance will occur only in 2018 and not in 2019, as was indicated in the November note. Through an official communication dated March 4, 2019, the bank granted a waiver for the ratio related to “Total net consolidated debt / Consolidated EBITDA” authorizing a change in the limit for 2018, as requested (from 5.30 times to 5.70 times).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

	Liabilities			
	Securities payable	Loans payable	Finance lease obligations	Total
Balance as of December 31, 2017	¢ 1,151,314	983,691	508,612	2,643,617
<u>Changes in cash flows from financing activities</u>				
Disbursements	18,672	51,427	7,784	77,883
Amortization	-	(103,206)	(23,652)	(126,858)
Total changes in cash flows from financing activities	18,672	(51,779)	(15,868)	(48,975)
Effect of variation in exchange rates	61,261	48,281	15,502	125,044
Balance as of December 31, 2018	¢ 1,231,247	980,193	508,246	2,719,686
	Liabilities			
	Securities payable	Loans payable	Finance lease obligations	Total
Balance as of December 31, 2016	¢ 1,148,489	961,270	509,368	2,619,127
<u>Changes in cash flows from financing activities</u>				
Disbursements (increases)	6,327	91,712	8,195	106,234
Amortization	(25,392)	(91,349)	(14,810)	(131,551)
Reclassification of debt	-	429	-	429
Total changes in cash flows from financing activities	(19,065)	792	(6,615)	(24,888)
Effect of variation in exchange rates	21,890	21,629	5,859	49,378
Balance as of December 31, 2017	¢ 1,151,314	983,691	508,612	2,643,617

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)***Note 21. Employee benefits**

As of December 31, 2018, of the total severance benefits obligation, the amounts of ¢47,953 and ¢1,995 are related to the permanent employee payroll and project payroll, respectively, for a total of ¢44,349 (2017: ¢105,018 and ¢3,609 for the permanent employee payroll and project payroll, respectively, for a total of ¢100,580).

The decrease in severance in relation to 2017 corresponds to the application starting December 2018 of Law No. 9635 Law to Strengthen Public Finances Transition provision XXVII, Chapter I and Title V, which establishes that for employees with a right to severance acquired through legal instruments other than collective agreements, when the law enters into effect on December 4, 2018, employees with at least 12 years of service will have the right to receive up to a maximum of 12 years of severance benefits. Other employees will have the right to receive up to a maximum of eight years of severance benefits. Previously, ICE followed the "Staff Regulations" which established, in Chapter XXXVII, the rules in effect for the payment of severance benefits for termination of employment agreement (with employer's liability), according to seniority and as established in said regulations.

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

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

- i. An employee whose employment contract is terminated with the recognition of severance benefits will have the right to the payment of such benefits based on seniority.
- ii. The payment of severance benefits is a compound calculation that considers whether the employees were hired before or after the Employee Protection Law as of March 2001, pursuant to the following criteria:
 - a. The time of service before the Employee Protection Law will be recognized in the proportion of one-month salary for six months to one year of service. When the time of service exceeds eight years, one-month salary will be recognized for every two years of service after the first eight years.

(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). Until December 31, 2017, for the rest of the employees, severance benefits are paid up to a maximum of 24 years, corresponding to 40 years of service, in accordance with the statute. Severance benefits shall be paid even if the worker immediately starts working for another employer.

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

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

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

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

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

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

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

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

	As of December 31,	
	2018	2017
<u>Reconciliation of the defined benefit obligation</u>		
Balance as of January 1	¢ 97,013	116,941
<u>Expense recognized in the statement of income and expenses and other comprehensive income for the year:</u>		
Current service cost	182	3,053
Income from prior services	(27,008)	-
Net interest on the defined benefit obligation	8,772	12,238
Total (income) expense recognized in the statement of income and expenses and other comprehensive income	(18,054)	15,291
<u>Recognized in other comprehensive income (OCI) – actuarial gain (i)</u>	(13,173)	(27,444)
Severance benefits paid	(14,638)	-
Allowance for severance benefits paid by ICE	(8,794)	(7,775)
Total payments	(23,432)	(7,775)
Defined benefit obligation at year-end	¢ 42,354	97,013

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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

	For the period ended	
	2018	2017
Loss on demographic assumptions	¢ (18)	(151)
Loss on financial assumptions	(15,137)	(31,538)
Gain on experience adjustments	1,983	4,245
	¢ (13,172)	(27,444)

(ii) Actuarial assumptions

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

	As of December 31,	
	2018	2017
Nominal discount rate	15.09%	10.28%
Expected salary increase rate	2.73%	2.26%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

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

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

			As of December 31, 2018		
			Discount rate variation		
			14.59%	15.09%	15.59%
Salary increase rate variation	2.20%	¢	42,106	40,799	39,564
	2.70%	¢	43,743	42,354	41,041
	3.20%	¢	45,477	43,997	42,602

The minimum amount of the obligation (¢39,564) occurs if the salary increase rate is the lowest in the sensitivity range (2.20%), and with the highest discount rate (15.59%). The maximum amount of the obligation (¢45,477) occurs in the opposite case. The calculated amount (¢42,354) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2017		
			Discount rate variation		
			9.78%	10.28%	10.78%
Salary increase rate variation	1.80%	¢	96,539	93,741	91,097
	2.30%	¢	99,984	97,013	94,209
	2.80%	¢	103,621	100,462	97,485

The minimum amount of the obligation (¢91,097) occurs if the salary increase rate is the lowest in the sensitivity range (1.80%), and with the highest discount rate (10.78%). The maximum amount of the obligation (¢103,621) occurs in the opposite case. The calculated amount (¢97,013) falls in the mid-range of this sensitivity analysis.

As of December 31, 2018, the average retirement period is 16.5 years, and the average employee seniority was 17 years, with an average age of 44.3 years (2017: average retirement period 17.5 years, average employee seniority 16.9 years, with an average age of 43.9 years).

Benefit – Supplemental Pension Fund

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 supplemental pension system, which is managed by the Guarantee and Savings Fund. Regarding 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 performed by an independent actuary on a yearly basis, starting in 2016, using the projected unit credit method.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)**Benefit – Guarantee and Savings Fund*

The benefit related to the Guarantee and Savings Fund 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 employee contributions equivalent to 5% of their gross salary. Contributions made by ICE are booked as an expense. The funds destined toward that benefit are transferred to and managed by the Guarantee and Savings Fund-Supplemental Pension System, an independent vehicle (see Note 13). 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. At the end of each period, the excess generated by this activity is distributed, increasing the value of ICE's contributions and the employee contributions, in a proportion determined by the board of directors of said fund. After 20 years of service at ICE, employees who leave the company without employer's liability have the right to withdraw the balance reflected in their individual savings account statement and ICE's contributions (see Note 13).

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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)*CNFLMovement in the defined benefit obligation (severance)

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

	As of December 31,	
	2018	2017
<u>Reconciliation of the defined benefit obligation</u>		
Balance as of January 1	¢ 7,596	7,945
<u>Expense recognized in the statement of income and expenses and other comprehensive income for the year:</u>		
Current service cost	1,214	809
Net interest on the defined benefit obligation	615	708
Total expense recognized in the statement of income and expenses and other comprehensive income	1,829	1,517
<u>Recognized in other comprehensive income (OCI) – actuarial gain (i)</u>	(937)	(1,401)
Severance benefits paid	(2,310)	-
Allowance for severance benefits paid by ICE	(920)	(465)
Total payments	(3,230)	(465)
Defined benefit obligation at year-end	¢ 5,258	7,596

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

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

	For the period ended	
	2018	2017
Loss on demographic assumptions	¢ 51	(2)
Loss on financial assumptions	(3,953)	(1,758)
Gain on experience adjustments	2,965	359
	¢ (937)	(1,401)

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)**(ii) Actuarial assumptions*

The main actuarial assumptions are as follows:

	As of December 31,	
	2018	2017
Nominal discount rate	14.93%	10.28%
Expected salary increase rate	3.17%	3.24%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

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

			As of December 31, 2018		
			Discount rate variation		
			14.43%	14.93%	15.43%
Salary increase rate variation	2.67%	¢	5,196	4,936	4,694
	3.17%	¢	5,543	5,258	4,995
	3.67%	¢	5,919	5,607	5,319

(Continued)

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(In millions of colones)

The minimum amount of the obligation (¢4,694) occurs if the salary increase rate is the lowest in the sensitivity range (2.67%) and the discount rate is the highest (15.43%). The maximum amount (¢5,919) occurs in the opposite case. The calculated amount (¢5,258) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2017		
			Discount rate variation		
			9.78%	10.28%	10.78%
Salary increase rate variation	2.70%	¢	7,530	7,176	6,848
	3.20%	¢	7,986	7,596	7,232
	3.70%	¢	8,483	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.

As of December 31, 2018, the average retirement period is 18.3 years, and the average employee seniority was 16.9 years, with an average age of 43.2 years (2017: average retirement period 18 years, average employee seniority 17.2 years, with an average age of 43.6 years).

RACSAMovement in the defined benefit obligation (severance)

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

(Continued)

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(In millions of colones)

	As of December 31,	
	2018	2017
<u>Reconciliation of the defined benefit obligation</u>		
Balance as of January 1	¢ 408	593
<u>Expense recognized in the statement of income and expenses and other comprehensive income for the year:</u>		
Current service cost	103	193
Income from prior services	(379)	-
Net interest on the defined benefit obligation	35	46
Total (income) expense recognized in the statement of income and expenses and other comprehensive income	(241)	239
<u>Recognized in other comprehensive income (OCI) – actuarial gain (i)</u>	283	(273)
Benefits paid directly by RACSA	(109)	(151)
Defined benefit obligation at year-end	¢ 341	408

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

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

	For the period ended December 31,	
	2018	2017
Loss on demographic assumptions	¢ 27	8
Loss on financial assumptions	(87)	(252)
Gain on experience adjustments	343	(29)
	¢ 283	(273)

(Continued)

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Notes to the Consolidated Financial Statements

*(In millions of colones)**(ii) Actuarial assumptions*

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

	As of December 31,	
	2018	2017
Nominal discount rate	11.61%	10.02%
Expected salary increase rate	3.90%	3.90%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

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

			As of December 31, 2018		
			Discount rate variation		
			11.11%	11.61%	12.11%
Salary increase rate variation	3.40%	¢	346	326	309
	3.90%	¢	366	341	323
	4.40%	¢	387	361	338

(Continued)

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Notes to the Consolidated Financial Statements

(In millions of colones)

The minimum amount of the obligation (¢309) occurs if the salary increase rate is the lowest in the sensitivity range (3.40%) and the discount rate is the highest (12.11%). The maximum amount (¢387) occurs in the opposite case. The calculated amount of (¢342) is at the mid-range of this sensitivity analysis.

			As of December 31, 2017		
			Discount rate variation		
			9.52%	10.02%	10.52%
Salary increase rate variation	3.40%	¢	404	369	340
	3.90%	¢	450	408	373
	4.40%	¢	504	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.

As of December 31, 2018, the average retirement period is 26.7 years, and the average employee seniority was 7.9 years, with an average age of 34.4 years (2017: average retirement period 27 years, average employee seniority 7.2 years, with an average age of 34.1 years).

Note 22. Accounts payable

Accounts payable are as follows:

		As of December 31,	
		2018	2017
Government	¢	19,823	9,745
Taxes and withholdings payable		12,445	14,624
Other creditors		138,943	91,970
		171,211	116,339
Less reclassification of non-current portion		(7,605)	(8,564)
Current	¢	<u>163,606</u>	<u>107,775</u>

Note 35 includes information regarding the Group's exposure to interest rate risk, currency risk and liquidity risk.

Changes in classification

During 2018, Grupo ICE modified the classification of accounts payable, given that for the new accounting code and operating cash flows defined in the implementation of the SAP-ERP tool, the best practice was to recognize these transactions as accounts payable, which from an accounting perspective seems correct because it is a short-term obligation. The comparative amounts in the consolidated statement of financial position were reclassified for purposes of consistency. This resulted in the reclassification of ¢7,933 from "Accumulated employee obligations payable" to "Taxes and withholdings payable."

(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,					
		2018			2017		
		Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢	-	5,311	5,311	-	5,860	5,860
Government grants (2)		6,495	281	6,776	7,008	307	7,315
Transfer of spare parts - materials (3)		-	10,115	10,115	-	9,398	9,398
Other		-	12,457	12,457	-	3,063	3,063
	¢	<u>6,495</u>	<u>28,164</u>	<u>34,659</u>	<u>7,008</u>	<u>18,628</u>	<u>25,636</u>

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 are recognized in the consolidated statement of income and expenses and other comprehensive income 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 and other comprehensive income systematically according to the useful life of the asset related to the grant received.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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(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 Services Rendering Centers in a specific Services Area.

(3) Transfer of spare parts - materials:

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 booked in the statement of income and expenses when the contractually established maintenance services are rendered and inventories assigned to Grupo ICE are used.

Note 24. Other provisions

Other provisions are as follows:

	As of December 31,	
	2018	2017
Litigation provision (Note 36)	¢ 1,661	1,849
Provision for mobile terminal warranties	1,546	1,794
	3,207	3,643
Less: current portion	(2,860)	(3,034)
Other non-current provisions	¢ 347	609

(Continued)

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Notes to the Consolidated Financial Statements

(In millions of colones)

Movement in these provisions is as follows:

As of December 31, 2018			
	Litigation provision	Provision for mobile terminal warranties	Total
Opening balance	¢ 1,849	1,794	3,643
Expense for the year - investment	28	-	28
Expense for the year - operation	(214)	-	(214)
Adjustment to net realizable value	-	(248)	(248)
Used during the year	(2)	-	(2)
	¢ 1,661	1,546	3,207

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

Note 25. Other liabilities

Other liabilities are as follows:

As of December 31,			
		2018	2017
Security deposits (1)	¢	53,893	52,611
Deposits from private individuals or companies		9,879	10,011
Valuation of financial instruments		(3,224)	4,344
Restricted funds		74	-
		60,622	66,966
Less reclassification of non-current portion		(53,967)	(52,610)
Current	¢	6,655	14,356

(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 ¢53,893 (2017: ¢52,611) corresponds mainly to ¢27,250 (2017: ¢23,541) 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 ¢26,643 (2017: ¢28,672) 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:

	As of December 31,	
	2018	2017
Vacation	¢ 23,020	19,770
Back-to-school bonus	21,112	21,119
Statutory Christmas bonus	2,280	1,930
Occupational hazard insurance	86	92
Compensation for Payroll Downsizing	-	8
	¢ <u>46,498</u>	<u>42,919</u>

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The movement in accrued employer obligations payable is as follows:

	As of December 31, 2018					
	Back- to- school bonus	Statutory Christmas bonus	Occupational hazard insurance	Third and Fifth Biweekly Salary	Compensation for Payroll Downsizing	Total
Opening balance	19,770	21,119	92	-	8	42,919
Expense for the year - investment	1,972	2,964	2,018	11,491	2	27,346
Expense for the year - operation	19,552	19,169		-	-	56,887
Used during the year	(18,274)	(22,140)	(2,025)	(11,491)	(10)	(80,654)
ø	23,020	21,112	86	-	-	46,498

	As of December 31, 2017						
	Vacation	Back-to-school bonus	Statutory Christmas bonus	Occupational hazard insurance	Third and Fifth Biweekly Salary	Compensation for Payroll Downsizing	Total
Opening balance	19,304	20,684	1,733	485	-	8	42,214
Expense for the year - investment	5,181	3,453	9,659	1,521	9,711	-	29,525
Expense for the year - operation	15,589	18,233	17,728	-	-	-	51,550
Used during the year	(20,304)	(21,251)	(27,190)	(1,914)	(9,711)	-	(80,370)
¢	19,770	21,119	1,930	92	-	8	42,919

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,	
	2018	2017
Guarantees received:		
Performance bonds (1)	¢ 122,426	126,933
Collection agents (2)	7,142	10,766
Bid bonds (3)	1,315	759
Security deposits	346	405
Subtotal	131,229	138,863
Credit memoranda accounts - other - surety	1,692	1,692
Mobile terminals received from clients	297	-
Consigned assets	1,308	130
Contingent assets:		
Savings and loan funds	31,657	29,936
CNFL Employee Association (ASEFYL)	14,265	14,296
Performance bonds - procurement	1,159	1,902
Materials in transit	313	2,494
Bid bonds	961	848
Collection of electricity services	1,188	1,178
Materials loans	148	126
Employee guarantees	282	67
Rental of posts	206	205
Performance bonds - labor contracts	181	151
Security deposits (electricity consumption)	377	361
Valle Central Wind Power Plant	88	83
CNFL performance bonds	810	861
Subtotal contingent assets	51,635	52,508
Contingent liabilities:		
Payment arrangements - financing of appliances	95	157
	¢ 186,256	193,350

(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 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.

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 CVC methodology. ARESEP applied this methodology since January 1, 2013.

This methodology allows for a faster recovery of the difference between the estimated and actual prices of fuels for thermal power generation because such methodology involves a quarterly review in order to perform the necessary adjustments to the rate schedules to be applied in the following quarter.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)*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. Also, 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 legal authority to review and adjust the rates applicable to such services.

Note 29. Operating costs and expenses

Operating costs and expenses are as follows:

	<u>Operating costs</u>		<u>Operating expenses</u>	
	<u>For the period ended</u>		<u>For the period ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	2018	2017	2018	2017
		<i>(Restated)*</i>		
Depreciation	¢ 275,046	266,998	8,872	5,282
Purchase of energy from independent power producers (b)	149,324	126,586	-	-
Salaries	138,210	174,628	182,834	132,851
Leases (a)	72,508	70,184	-	-
Amortization of intangible assets	12,189	18,568	11,722	1,763
Fuels for thermal generation	8,493	2,286	-	-
Import of energy	4,189	1,408	-	-
El Diquís Hydroelectric Project (PHED) (c)	-	-	88,556	-
Other	243,590	213,232	227,564	264,530
	¢ <u>903,549</u>	<u>873,890</u>	<u>519,548</u>	<u>404,426</u>

(*) See Note 32.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

General characteristics of the agreement

General characteristics of the agreement																	
In millions of US dollars																	
Service order No.	Lessor	Date of agreement	Starting date	Approximate expiration date	Amount of agreement	Balance of service order as of			No. of	Lease amount	Purchase option	Expense booked in 2018	Expense booked in 2017	Frequency	Purpose		
						Total paid	December 31, 2018	Paid in 2018	installments								
No order No.	Garabito Thermal Power Plant Trust (1)	5-Nov-07	1-Jun-10	31-Mar-22	US\$	743	544	199	63	142	5	213	€	36,468	34,414	Monthly	Lease of Garabito Thermal Power Plant
No order No.	Cariblanco Securitization Trust (1)	16-Aug-00	1-Oct-07	31-Dec-19		304	279	25	25	147	2	8		14,365	13,800	Monthly	Lease of Cariblanco Hydroelectric Power Plant
332059	Las Pailas Geothermal Power Plant (2)	7-Mar-07	18-Oct-11			240	125	115	18	24	8	-		9,644	9,877	Half-yearly	Lease of Las Pailas Geothermal Power Plant
No order No.	Toro III Power Plant Trust (1) and (4)	26-Jun-12	1-Jun-13	31-Aug-28		131	53	78	9	142	1	-		5,447	5,254	Monthly	Lease of Toro III Power Plant
351643	Junta Administradora de Servicios Electricos Municipal de Cartago JASEC (3)	14-Apr-10	4-Jun-12	3-Jun-22		25	13	12	2	20	Between US\$1,637 and US\$1,658 (in thousands)	-		1,245	1,255	Half-yearly	Infrastructure for Toru Step-Down tower sites for Rio Macho Transmission Line
Subtotal - Operating leases - US dollars						US\$ 1,443	1,014	429	117			€ 67,169		64,680			
General characteristics of the agreement																	
In millions of colones																	
350702	Cooperativa de Electrificación Rural Guanacaste (5)	16-Feb-10	6-Mar-10	5-Sep-21	€	87,848	51,582	36,266	5,581	138	Variable between €617 and €473	Approximately €3,541	€	5,339	5,504	Monthly	Infrastructure for Liberia, Paquayo - Nuevo Colon Transmission Line
Subtotal - operating leases - colones						€ 87,848	51,582	36,266	5,581			€ 5,339		5,504			
Total - Operating leases												€ 72,508		70,184			

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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(In millions of colones)

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

(1) Securitization Trusts:

Grupo 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 Grupo 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.
 - 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, licenses, and other assets acquired with trust funds to develop the projects and operate and provide maintenance to the plants); rights to use the land owned by the trustor required to develop the projects; and all written information and studies conducted for and during the development of works managed by the trusts.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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- c) The agreed-upon income from the lease of power plants.
- d) Any other income obtained by the trusts in the ordinary 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 power to dispose of the trust assets and the trustor's power to issue instructions concerning such assets is limited to actions that are strictly necessary to comply with the trust agreement's purpose.
- 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.
- 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 lessor shall be ICE along with JASEC, in conformity with an alliance established between ICE and that institution (see item No. 4 of Toro III Hydroelectric Power Plant presented ahead).
- 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 shall be determined in US dollars.

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- 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 shall 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.
- 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 option to buy the leased asset. The value of the option to buy 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 CABEI as the investor, developer, and owner.

Subsequently, ICE, as the lessee, will be responsible for 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 CABEI subscribed a lease agreement with an option to buy the Las Pailas Geothermal Power Plant.

- The lease will be for a term of 12 years with an option to buy the Las Pailas Geothermal Project, starting from the date of satisfactory receipt of the plant by Grupo ICE.
- The total amount of the lease is US\$240, 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.
- CABEI will make an investment of up to US\$130 in construction of the plant.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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- CABEI agrees that ICE will carry out 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;
- 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 an option to buy 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, with JASEC as lessor and ICE as lessee. The works are located in the San Isidro district, El Guarco Canton, Cartago.

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.

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(In millions of colones)

The partnership agreement involved the subscription of a 137-month lease agreement (11 years and 5 months) 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 10).

The partnership agreement subscribed by ICE and JASEC involves equal participation in respect of rights and 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.:

On February 16, 2010, ICE and Cooperativa de Electrificación Rural de Guanacaste, R.L. (Coopeguanacaste) subscribed a lease agreement with an option to purchase the infrastructure of the power transmission Liberia-Papagayo-Nuevo Colón. ICE acts as lessee and Coopeguanacaste as lessor. The term of the agreement is 137 months (11 years and 5 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.

b) Purchase of energy from independent power producers

Grupo 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, 2018, 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 power 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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

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 quality and standards established in each agreement and will deliver all the power generated to Grupo ICE, except for the power required to feed the auxiliary equipment and operate the plants, in accordance with the agreements.
- 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;
- the inability of the independent power producer to supply power 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 July 2023 and October 2033.

For independent power producers who have subscribed agreements under Chapter I of Law No. 7200 (BOO Contracts), 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;

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

The general terms of these agreements establish that, during the term of the agreement, Grupo 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 Grupo ICE at the point of measurement does not exceed the power output agreed.

ICE will not make any payments for the power 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 30 companies, i.e. ten 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.

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.

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Notes to the Consolidated Financial Statements

*(In millions of colones)*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.”

c) **Operating costs and expenses – transfer of costs of El Diquís Hydroelectric Project to expenses in the consolidated statement of income and expenses and other comprehensive income**

The El Diquís Hydroelectric Project, which sought to take advantage of the flow of General River to generate an estimated hydroelectric power output of 650 MW and an average power output of 3,050 GWh/year. The project was to begin operations in 2026, year when the country’s electricity demand is estimated to exceed 14,000 GWh, an increase close to 30% of the country’s electricity consumption in 2017.

During 2018, Grupo ICE suspended the El Diquís Hydroelectric Project indefinitely, given that in the 2018 Generation Expansion Plan it determined that, in the planning horizon studied and with the available demand forecasts, this project is no longer part of the optimum minimum cost plan. Following best accounting practices, the pre-investment costs were transferred to the consolidated statement of income and expenses and other comprehensive income, under “operating costs and expenses – other expenses.” The suspension of this hydroelectric project does not affect ICE’s payment capacity regarding the different obligations with bond holders, given that it does not correspond to an outflow of resources in the current year. This project was booked under “construction work in progress – design and planning of execution,” with an investment of ¢87,351 in 2017. As of the date of decision to transfer it to the consolidated statement of income and expenses and other comprehensive income, El Diquís Hydroelectric Project had an investment amount of ¢88,556 in 2018.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)***Note 30. Other income**

		For the year ended December 31,	
		2018	2017
Construction services (1)	¢	14,500	11,037
Other (2)		22,634	45,992
	¢	<u>37,134</u>	<u>57,029</u>

- (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 ICE to third parties for projects under construction. Costs related to “Civil works and electromechanical contracts” are booked under that category, mainly services rendered to the National Emergency Commission.
- (2) During the period ended as of December 31, 2018, ICE recognized “Other income,” including compensation, collection of administrative sanctions and engineering services.

Note 31. Finance income and finance costs

		For the year ended December 31,	
		2018	2017
Income from investments (1)	¢	23,015	29,511
Finance costs (3)		(199,920)	(177,780)
Foreign exchange variations, net (2)		(99,607)	(49,955)
Income from investments in other companies		488	383
	¢	<u>(276,024)</u>	<u>(197,841)</u>

A description of the main transactions is as follows:

- (1) Income from investments includes interest on foreign securities.
- (2) As a result of transactions in foreign currency, during the period ended December 31, 2018, 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 ¢172,498 and ¢272,105, respectively, for a net amount of (¢99,607) (2017: foreign exchange income and expenses in the amount of ¢7,026 and ¢56,981, for a net loss of (¢49,955)). The valuation of monetary assets and liabilities denominated in foreign currency at year-end was performed using the exchange rate of ¢609.84 to US\$1.00 (2017: ¢570.49 to US\$1.00).
- (3) Interest and commission expenses are mainly related to internal debt securities, external debt securities and finance leases.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)**Note 32. Restatement of financial statements**

During the year ended December 31, 2018, the accumulated amounts as of December 31, 2017 and the year then ended were restated, incorporating several retrospective adjustments due to the correction of errors and changes in accounting policies. The retrospective adjustments to prior-year financial figures are as follows:

	Property, plant and equipment, net (Note 8)	Equity investments (Note 10)	Development reserves
Balance as of December 31, 2017, previously reported	5,013,533	30,686	2,506,594
Total effect of adjustments due to correction of errors in periods prior to 2017:			
Adjustment for costs that are not capitalizable to construction work in progress (1)	(1,365)	-	(1,839)
Total effect of adjustments due to correction of errors in periods prior to 2017	(1,365)	-	(1,839)
Accumulated effect of changes in accounting policies and adjustments due to correction of errors in 2017:			
Adjustment for costs that are not capitalizable to construction work in progress (1)	(10,741)	-	(10,267)
Adjustment due to restructuring of the figures of the joint venture Tecomunica S.A. Nicaragua as result of the 2017 audit process (3)	-	(37)	-
Total effect of adjustments due to correction of errors in 2017	(10,741)	(37)	(10,267)
Subtotal adjustments	(12,106)	(37)	(12,106)
Balance as of December 31, 2017	5,001,427	30,649	2,494,488
Accumulated effect of reclassifications in 2017:			
Reclassification of inventories - investment	(251)	-	-
Subtotal reclassification	(251)	-	-
Balance as of December 31, 2017, restated	5,001,176	30,649	2,494,488
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(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

		Production management	Net surplus (deficit)
<u>Balance as of December 31, 2017, previously reported</u>	¢	76,648	(51,984)
<u>Accumulated effect of adjustment due to correction of errors in 2017:</u>			
Adjustment for costs that are not capitalizable to construction work in progress (1)		10,741	(10,741)
<u>Total effect of adjustment due to correction of errors in 2017</u>		10,741	(10,741)
<u>Balance as of December 31, 2017, restated</u>	¢	<u>87,389</u>	<u>(62,725)</u>

As indicated in note 33, due to the change adopted by Grupo ICE regarding the presentation and classification of the balances of its consolidated financial statements, applied retrospectively, the balances previously reported in 2017 and 2016 were modified.

(1) Adjustment for costs that are not capitalizable to construction work in progress

In property, plant and equipment, net, under the construction work in progress sub-account, an adjustment was made to the investment booked as an expense given that it was determined that those costs are not part of the productive assets of the telecom sector. It was not possible to associate those amounts to a specific project, although they were necessary for the construction activity and infrastructure of the projects.

(2) Sureties

As of December 31, 2018, through a review of memoranda accounts it was determined that in 2017 the sureties with subsidiaries had been classified as performance bonds. The corresponding reclassification for presentation of the consolidated financial statements was performed.

(3) Tecomunica, S.A. – Nicaragua

As of December 31, 2018, an adjustment was performed due to restructuring of the figures of the joint venture Tecmunica S.A. Nicaragua as result of the 2017 audit process

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(In millions of colones)***Note 33. Reclassifications**

Grupo ICE modified the presentation of its consolidated financial statements during 2018 to achieve a more appropriate and relevant disclosure of financial information, following best practices in presentation guidelines. Thus, it changed the presentation or classification of some accounts reflected in the consolidated financial statements for 2017, to achieve comparability with the consolidated financial statements for 2018. The changes made to accounts included in the 2017 financial statements are as follows:

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

	December 2017 (previously reported)	Effect of retrospective adjustments	December 2017 (Restated)	Adjustment due to changes in the presentation of the financial statements	December 2017 (Reclassified)
Non-current assets:					
Property, plant and equipment, net	¢ 5,013,533	(12,106)	5,001,427	(251)	5,001,176
Intangible assets, net	92,078	-	92,078	-	92,078
Equity investments	30,686	(37)	30,649	-	30,649
Notes and other accounts receivable, net	3,159	-	3,159	-	3,159
Investments in financial instruments	134,296	-	134,296	(23,884)	110,412
Guarantee and Savings Fund	221,056	-	221,056	-	221,056
Deferred tax assets	-	-	-	390	390
Total non-current assets	5,494,808	(12,143)	5,482,665	(23,745)	5,458,520
Current assets:					
Inventories, net	97,039	-	97,039	251	97,290
Notes and other accounts receivable, net	43,848	-	43,848	22,323	66,171
Temporary investments	30,240	-	30,240	23,890	54,130
Restricted funds	16,822	-	16,822	(15,521)	1,301
Trade receivables, net	106,144	-	106,144	980	107,124
Prepaid expenses	69,788	-	69,788	(23,304)	46,484
Other assets	2,680	-	2,680	(390)	2,290
Cash and cash equivalents	172,904	-	172,904	15,516	188,420
Total current assets	539,465	-	539,465	23,745	563,210
Total assets	¢ 6,034,273	(12,143)	6,022,130	-	6,022,130

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

	December 2017 (previously reported)	Effect of retrospective adjustments	December 2017 (Restated)	Adjustment due to changes in the presentation of the financial statements	December 2017 (Reclassified)
Equity:					
Paid-in capital	¢ 211	-	211	(55)	155
Other reserves	13,666	-	13,666	-	13,666
Restricted earnings from capitalization of investment in subsidiary	62,380	-	62,380	-	62,380
Actuarial gains (losses)	8,811	-	8,811	-	8,811
Profit or loss on investments in other companies	(148)	(37)	(185)	-	(185)
Valuation of non-derivative financial instruments and hedges	(16,267)	-	(16,267)	-	(16,267)
Retained earnings	203,232	-	203,232	55	203,288
Development reserve	2,506,594	(12,106)	2,494,488	-	2,494,488
Equity attributable to owners of ICE	2,778,479	(12,143)	2,766,336	-	2,766,336
Non-controlling interest	4,314	-	4,314	-	4,314
Equity	2,782,793	(12,143)	2,770,650	-	2,770,650
Liabilities:					
Non-current liabilities:					
Securities payable	1,151,314	-	1,151,314	-	1,151,314
Loans payable	883,003	-	883,003	158	883,161
Finance lease obligations	491,909	-	491,909	-	491,909
Employee benefits	83,855	-	83,855	-	83,855
Accounts payable	8,564	-	8,564	-	8,564
Prepaid income	7,008	-	7,008	-	7,008
Guarantee and Savings Fund	221,056	-	221,056	-	221,056
Deferred tax liabilities	-	-	-	1,528	1,528
Other provisions	609	-	609	-	609
Other liabilities	52,610	-	52,610	-	52,610
Total non-current liabilities	¢ 2,899,928	-	2,899,928	1,686	2,901,614
Current liabilities:					

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	December 2017 (previously reported)	Effect of retrospective adjustments	December 2017 (Restated)	Adjustment due to changes in the presentation of the financial statements	December 2017 (Reclassified)
Loans payable	100,530	-	100,530	-	100,530
Finance lease obligations	16,703	-	16,703	-	16,703
Employee benefits	24,772	-	24,772	-	24,772
Accounts payable	98,386	-	98,386	9,389	107,775
Prepaid income	18,361	-	18,361	267	18,628
Accrued employer obligations payable	52,228	-	52,228	(9,309)	42,919
Accrued interest payable	21,149	-	21,149	-	21,149
Other provisions	3,034	-	3,034	-	3,034
Other liabilities	16,389	-	16,389	(2,033)	14,356
Total current liabilities	351,552	-	351,552	(1,686)	349,866
Total liabilities	3,251,480	-	3,251,480	-	3,251,480
Total liabilities and equity	6,034,273	(12,143)	6,022,130	-	6,022,130
Memoranda accounts	238,713	-	-	(45,363)	193,350

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Note 34. Tax regulations

Grupo ICE is subject to tax obligations governed by the Income Tax Law (Law No. 7092) and amendments thereto, the Regulations to the Income Tax Law and amendments thereto, the 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), the General Telecommunications Law (Law No. 8642) and the Law to Strengthen Public Finances (Law No. 9635).

(a) Strengthening of Public Finances

On December 4, 2018, Law No. 9635, Law to Strengthen Public Finances, was published in Alcance No. 202 of the Official Gazette. It introduces important changes to the tax treatments defined in the Income Tax Law and the General Sales Tax, in effect as of that date, substituting the latter for a Value-Added Tax (VAT). Many of the proposed amendments will enter into effect six months after its publication; consequently, the main impacts of the VAT will start to be seen as of that date. The main aspects worth noting related to the new legislation are as follows: For VAT, the effect of the new law will be a tax on the sale and import of tangible and intangible assets, and the rendering of all services in the country, independent of their origin or means.

- It includes some exceptions and specific treatments with lower rates. The general rate is 13%, but for some goods and services a special rate ranging from 1% to 4 % is initially applied, which will subsequently increase after a specific term has elapsed. For energy consumption, a monthly exempt amount of 280 Kw is established; if the amount is exceeded, 13% will be applied to the total. Regarding tax credit, the calculation and use of a proportional credit is established in cases of related purchases, as well as operations that can apply the credit and those that cannot, due to the difficulty in identifying such credit.
- Law No. 9635 establishes a tax on capital gains, where the taxable event is all income from a Costa Rican source, derived from capital and from realized gains or losses on capital, if and when related to assets or rights held by the taxpayer; as well as foreign exchange differences on assets or liabilities resulting from operations, if and when the taxable income is not subject to income tax. This tax has a general rate of 15%.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- Regarding salary tax, Law No. 9635 establishes tax brackets and additional rates; therefore, salaries paid to employees are subject to tax rates of 0%, 10% and 15%. In addition, two additional tax brackets are created, with tax rates of 20% and 25%.
- Regarding withholding tax on remittances abroad, Law No. 9635 increases the rate to 25% for professional fees, commissions, per diem and other independent personal services.

(b) Income tax

Law No. 7722, 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.”*

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.”

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

Given that ICE must reinvest the total net surplus obtained, it does not have surplus; hence it does not have taxable income and no income tax obligation is generated. However, in its normal transactions the Tax Administration applies income tax withholdings that are subsequently applied as a credit to the sales tax liability.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The calculation of income tax is as follows:

	For the year ended December 31,	
	2018	2017
Current	¢ (723)	(1,516)
Deferred	6,198	(15)
	¢ 5,475	(1,531)

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

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

Tax returns filed by the subsidiaries for the years ended December 31, 2018, 2017, 2016 and 2015 are open to review by the Tax Authorities. The subsidiaries filed the tax returns for the year ended December 31, 2018.

(i) Deferred tax

For the year ended December 31, 2018, deferred tax assets in the amount of ¢395 (2017: ¢390) arise from temporary differences related to the provisions and allowances for RACSA.

Deferred tax liabilities in the amount of ¢106,289 (2017: ¢1,528) originate from the subsidiary CNFL revaluation of productive assets, which is not deductible for tax purposes.

In December 2018, the *Law to Strengthen Public Finances* (Law No. 9635) was approved. Among other, it introduced amendments to: the *Sales Tax Law*, turning it into a *Value-Added Tax Law*; the *Income Tax Law*, including a Chapter on the taxation of capital gains. Due to the approval of this new law, CNFL recognized a deferred tax liability for the revaluation of land in the amount of ¢7,693, which is included in the aforementioned amount.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)December 31, 2018

	December 31, 2018	Recognized in profit or loss for the year	Effect on the allocation of the revaluation surplus	Reversal of deferred tax due to the price index	December 31, 2017
<u>Deferred tax:</u>					
Revaluation of productive assets	¢ 106,289	(6,198)	112,487	(1,528)	1,528

December 31, 2017

	December 31, 2017	Recognized in profit or loss for the year	December 31, 2016	
<u>Deferred tax:</u>				
Revaluation of productive assets	¢ 1,528	45	1,574	

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

As of December 31, 2018 and 2017, the subsidiary CNFL did not recognize deferred tax assets in its statement of financial position because, considering its profit or loss for the current period and its projections for the following year, it does not expect to generate sufficient future taxable profits to allow for the recognition of deferred tax assets as of that date. The amount of deferred tax assets is related to the following items:

	December 31,			
	2018		2017	
	Amount	Tax effect	Amount	Tax effect
Allowance for doubtful accounts	1,771	531	1,821	546
Allowance for valuation of inventory	947	284	1,393	418
Statutory Christmas bonus provision	346	104	380	114
Severance benefits provision	5,258	1,577	7,596	2,279
	<u>8,321</u>	<u>2,496</u>	<u>11,189</u>	<u>3,357</u>

(c) General Sales Tax

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 goods 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 280 kW per month versus 13% for commercial consumption and the rendering of telecommunications services.

Because it is a value-added tax, Grupo ICE pays sales tax on the goods and services required to perform its economic activity. Pursuant to Article 14 of the General Sales Tax Law, sales tax paid on goods and inputs that are used in the production of electricity and telecom services can be applied as a credit to the sales tax liability for the period.

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

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

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

This tax is defined in 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 15th 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.

(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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

- 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 35. 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 (including currency, interest rate and commodity risks). All these risks have an impact on the management of ICE; however, each risk is handled individually. For example, credit risk is regulated by the Investment Committee through a rigorous analysis of the issuers and of CAMELS ratings; liquidity risk is managed by controlling treasury cash flows for the Telecom and Electricity segments; and market risk is hedged with financial derivatives. As a result, risk exposure is controlled through the Investment Committee.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

The Investment Committee is entitled to monitor and control 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.

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 techniques and key indicators
	2018	Type	2017	Type		
Temporary investments (Note 15)	¢ 53,451	Asset	54,130	Asset	Level 1	The valuation is made using the return on investments shown in the price vector of Proveedor Integral de Precios (PIPICA) as of December 31, 2018.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.

Except for what is detailed in the following table, management considers that the carrying amount of the financial assets and liabilities recognized in the consolidated financial statements approximates their fair value:

		As of December 31,			
		2018		2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
- Loans and accounts receivable	¢	38,152	38,980	34,763	40,566
- Notes receivable		5,280	5,214	5,160	5,233
Financial liabilities:					
Financial liabilities measured at amortized cost:					
- Loans		2,167,517	2,211,440	2,072,800	2,135,005
- Finance leases payable	¢	495,078	508,246	523,252	508,612

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.

Financial risk management

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

- credit risk
- liquidity risk
- market risk.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)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 and to increase and diversify income included in the business strategy, through an effective management of financial risks using market opportunities, based on available financial instruments, in accordance with the Risk Management and Financial Risk Hedging Strategy.”

The Corporate Policy for Financial Risk and Financial Hedging Management in effect since 2011 was updated in January 2018.

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 financial and investments process.

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

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.

For 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.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

For 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:

Carrying amount of financial assets	Note	As of December 31,	
		2018	2017
Cash and cash equivalents	19	¢ 138,655	188,420
Temporary investments	15	53,451	54,130
Equity investments	10	30,768	30,649
Restricted funds	16	1,017	1,301
Savings and loan funds	13	222,212	221,056
Notes and accounts receivable	11-17	221,704	176,454
		¢ <u>667,807</u>	<u>672,010</u>

(i) 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:

- Collection management during the different stages using a variety of means, i.e. text messaging, calls and emails.
- Massive, specific collection management, centralized in the Billing and Income Management Division, through three methods depending on the collection stage, with different strategies for each stage.
- Immediate suspension of electricity and telephone services after the bill's due date. The average collection periods for the Telecom and Electricity segments are 29 days and 31 days, respectively. Collection periods are determined by each segment (Collections Management Policy).
- Online collection process through contracts with external collection agents and banks, or internal collection through Grupo ICE's cashier windows.

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- 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, Grupo ICE uses companies dedicated to collections or coordinating payment arrangements with customers to mitigate arrears.
- Residual past due accounts (representing less than 1%) are studied to include them in legal collection, a process performed through the subsidiary Gestión de Cobro, S.A.

Note 7 "Summary of significant accounting policies" explains in detail the accounting policy for booking the allowance and the administrative and legal collection processes.

(ii) Investments

In the case of credit or counterparty risk, the ratings given to 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 Policy on Risk and Financial 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 solely for colon/US dollar hedges, is nullified.

As of December 31, 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,	
	2018	2017
Local	¢ 234,564	231,792
Foreign	28,306	4,368
	262,870	236,160
Allowance for doubtful accounts	(41,166)	(59,706)
	¢ 221,704	176,454

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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As of December 31, the maximum exposure to credit risk in respect of notes and other accounts receivable and trade receivables by type of counterparty is as follows:

Type of counterparty	As of December 31,	
	2018	2017
Loans to autonomous entities	¢ 184,370	199,429
Government	50,514	19,643
Subsidiaries	27,986	17,088
Other	262,870	236,160
	(41,166)	(59,706)
Allowance for doubtful accounts	221,704	176,454

The aging of trade receivables and other accounts receivables not impaired is as follows:

As of December 31,						
	2018			2017		
	Balance	Allowance for doubtful accounts	Total	Balance	Allowance for doubtful accounts	Total
Current	¢ 123,905	-	123,905	136,193	-	136,193
1-30 days	1,182	-	1,182	8,755	-	8,755
31-60 days	13,932	-	13,932	-	-	-
61-90 days	154	-	154	6,193	-	6,193
91-120 days	47	-	47	941	-	941
121-150 days	7,242	-	7,242	3,499	-	3,499
151-180 days	6,695	-	6,695	4,662	-	4,662
181-270 days	10,889	-	10,889	6,259	-	6,259
271-360 days	39,995	-	39,995	37,307	(27,355)	9,952
More than 361 days	58,829	(41,166)	17,663	32,351	(32,351)	-
	¢ 262,870	(41,166)	221,704	236,160	(59,706)	176,454

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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The following is an analysis of the credit quality of commercial debtors and other accounts receivable (current and not impaired):

		December 31,	
		2018	2017
Current	¢	221,705	176,454
In legal and administrative collection		41,165	59,706
		262,870	236,160
Allowance for doubtful accounts		(41,166)	(59,706)
	¢	221,704	176,454

The movement in the allowance for accounts receivable is as follows:

		December 31,	
		2018	2017
Opening balance	¢	59,706	62,522
Expense for the period		(29,408)	(10,068)
Used during the period		10,868	7,252
Closing balance	¢	41,166	59,706

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.

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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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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 Enterprise Resource Planning (ERP) 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 the ERP 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.

Lines of credit are approved as follows: amounts greater than US\$20 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.

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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 for 2018, including contractual interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<i>Non-current liabilities</i>						
Securities payable	¢ 1,211,765	1,885,903	-	671,367	435,074	779,462
Loans payable	887,060	1,116,894	-	264,113	332,262	520,519
Finance lease obligations	488,057	746,704	-	135,675	196,710	414,319
Accounts payable	7,605	7,605	298	298	895	6,114
	<u>2,594,487</u>	<u>3,757,106</u>	<u>298</u>	<u>1,071,453</u>	<u>964,941</u>	<u>1,720,414</u>
<i>Current liabilities</i>						
Securities payable	19,482	19,482	19,482	-	-	-
Loans payable	93,133	93,133	93,133	-	-	-
Finance lease obligations	20,189	20,189	20,189	-	-	-
Accounts payable	163,566	163,566	163,566	-	-	-
Accrued interest payable	17,811	17,811	17,811	-	-	-
	<u>314,181</u>	<u>294,699</u>	<u>294,699</u>	<u>-</u>	<u>-</u>	<u>-</u>
¢	<u>2,908,668</u>	<u>4,051,805</u>	<u>294,997</u>	<u>1,071,453</u>	<u>964,941</u>	<u>1,720,414</u>

Cash inflows (outflows) disclosed in the table above represent undiscounted contractual cash flows related to derivative financial liabilities held for risk management purposes and that are generally not closed before their contractual maturity. The disclosure shows net cash flows for the derivatives liquidated in net cash and gross cash inflows and outflows for derivatives that are liquidated simultaneously in gross cash.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
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As indicated in Note 20, Grupo ICE holds secured bank loans that contain debt restrictions. A future non-compliance with the restriction may require Grupo ICE to pay the loan before the date indicated in the table above; therefore, loan conditions are monitored periodically by the Treasury Department and are regularly reported to management to ensure compliance.

The following are the contractual maturities of financial liabilities for 2017, including interest:

	Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
<i>Non-current liabilities</i>						
Securities payable	1,151,314	1,865,100	-	157,634	928,995	778,471
Loans payable	883,161	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	-
	<u>2,534,948</u>	<u>3,847,499</u>	<u>7,673</u>	<u>449,612</u>	<u>1,750,156</u>	<u>1,640,058</u>
<i>Current liabilities</i>						
Loans payable	100,530	100,530	100,530	-	-	-
Finance lease obligations	16,703	16,703	16,703	-	-	-
Accounts payable	107,775	107,775	107,775	-	-	-
Accrued interest payable	21,149	21,149	21,149	-	-	-
	<u>246,157</u>	<u>246,157</u>	<u>246,157</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,781,105</u>	<u>4,093,656</u>	<u>253,830</u>	<u>449,612</u>	<u>1,750,156</u>	<u>1,640,058</u>

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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.

Grupo 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, Grupo 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 11 derivative financial instruments: one to hedge interest rate risk (Interest Rate Swap); two to hedge against the yen/US dollar fluctuations (Cross Currency Swap); and eight to hedge against the US dollar/colón fluctuations (Cross 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 Grupo ICE is in US dollars.

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The financial hedging policy seeks to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the 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) Currency swap
- e) Non-deliverable forward
- f) Cross-currency swap

Other instruments with similar structures can be derived from the families of derivative financial instruments mentioned above. Management shall decide whether to use such instruments to comply with the Corporate Policy for Financial Risk and Financial Hedging Management and with its risk management strategy. The use of futures and options is not contemplated. The risk management strategy shall mitigate exposure to variability in cash flows due to fluctuations in foreign exchange rates arising from debt positions in currencies other than the functional currency, attempting to offset those potential risks according to market conditions.

(Continued)

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

As of December 31, Grupo ICE's exposure to currency risk is as follows:

	US dollars		Yen December 31,		Euro	
	2018	2017	2018	2017	2018	2017
<u>Assets</u>						
Property, plant and equipment, net	38	21	3	2,814	-	1
Investments in financial instruments,	127	50	-	-	-	-
Notes and other accounts receivable, net - non-current	5	5	-	-	-	-
Cash and cash equivalents	104	112	-	-	-	-
Trade receivables, net	8	16	-	-	-	-
Notes and other accounts receivable, net - current	38	11	-	-	-	-
Inventories, net	5	1	-	-	-	-
Restricted funds	1	1	-	-	-	-
	325	216	3	2,814	-	1
<u>Liabilities</u>						
Securities payable	1,557	1,558	-	-	-	-
Loans payable	978	1,115	20,177	17,604	-	-
Finance lease obligations	410	417	-	-	-	-
Accounts payable	92	80	873	3,142	2	3
Accrued interest payable	7	25	183	-	-	-
Deposits from private individuals or companies	-	1	-	-	-	-
Other liabilities	(12)	68	-	-	-	-
Prepaid income	5	-	-	-	-	-
	3,037	3,264	21,233	20,746	2	3
Excess liabilities over assets	2,712	3,048	21,230	17,932	2	2

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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 ₡609.87 as of December 31, 2018 (2017: ₡570.49).

The following exchange rates have been applied:

	Exchange rate - US dollar	
	As of December 31,	
	2018	2017
Euro	1.14	1.19
Colones	609.87	570.49
Japanese yen	110.03	112.69

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 BCCR or State-owned commercial banks.” For its operations, ICE will perform transactions at the exchange rates established by BCCR at the date of the transactions.

Sensitivity analysis

The table below shows the sensitivity as of December 31, 2018 and 2017 to a strengthening or weakening of the exchange rate of the US dollar with respect to the colon. Grupo ICE applies a sensitivity rate of 10%, which represents its best estimate of the exchange rate variations of the US dollar with respect to the colon.

	2018	2017
<i>Sensitivity to a strengthening of the exchange rate:</i>		
Net position in US dollars at the closing exchange rate	₡ 1,653,437	1,738,283
Net position in US dollars	US\$ 2,712	3,048
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	₡ 1,818,780	1,912,111
Loss	₡ 165,343	173,828
<i>Sensitivity to a weakening of the exchange rate:</i>		
Net position in US dollars at the closing exchange rate	₡ 1,653,437	1,738,283
Net position in US dollars	US\$ 2,711	3,047
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	₡ 1,488,093	1,564,455
Gain	₡ 165,344	173,828

(Continued)

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This analysis assumes that all other variables remain constant, particularly interest rates and foreign exchange rates.

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:

	Note
Debt securities payable	20(a)
Temporary investments	15
Loans payable	20(b)
Investments in financial instruments	12
Notes and other accounts receivable	11
Finance lease obligations	20(c)

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, securities payable, loans payable, and finance lease obligations, permanent changes in interest rates would have an impact on profit or loss.

(Continued)

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During the year ended December 31, 2018, 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 income and expenses			
	As of December 31,			
	2018	2017		
	Strengthening of 1%	Weakening of 1%	Strengthening of 1%	Weakening of 1%
¢				
Temporary investments	535	(535)	1,045	(1,045)
Long-term financial investments	1,322	(1,322)	1,976	(1,976)
Long-term notes receivable	27	(27)	1,355	(1,355)
Short-term notes receivable	753	(753)	1,693	(1,693)
Long-term securities payable	12,126	(12,126)	11,246	(11,246)
Short-term securities payable	194	(194)	-	-
Long-term loans payable	7,571	(7,571)	6,582	(6,582)
Short-term loans payable	-	-	2,551	(2,551)
Finance leases payable	5,157	(5,157)	5,086	(5,086)
Net effect	27,685	(27,685)	31,534	(31,534)

(Continued)

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As of December 31, 2018, cash flows related to derivative financial instruments are shown below. Expected cash flows consider the projected cash flow estimates:

	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Ø	(3,624)	4,633	581	1,037	888	1,742	385
Cross-currency swap							
Cross-currency swap	2,568	3,503	439	784	1,227	966	87
Forward starting swap	(1,684)	400	119	162	115	4	-
Non-deliverable currency swap Tranche a-1	(168)	654	130	218	262	44	-
Non-deliverable currency swap - 3 years	(5)	2,043	522	999	522	-	-
Coupon swap - 3 years	322	(22)	3	(25)	-	-	-
Coupon swap - 3 years	(149)	663	332	332	-	-	-
Coupon swap - 3 years	(58)	104	52	52	-	-	-
Coupon swap - 3 years	273	57	39	18	-	-	-
Coupon swap - 3 years	(67)	434	217	217	-	-	-
Coupon swap - 3 years	(65)	228	106	121	-	-	-
Total	Ø (2,657)	12,697	2,540	3,915	3,014	2,756	472

(Continued)

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As of December 31, 2017, cash flows related to derivative financial instruments are shown below. Expected cash flows consider the projected cash flow estimates for each derivative:

	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
¢	(4,998)	5,928	668	1,207	1,037	2,202	814
Cross-currency swap	1,964	4,372	492	891	765	1,624	600
Forward starting swap	(1,684)	1,066	287	379	216	183	-
Plain vanilla swap	(127)	90	90	-	-	-	-
Non-deliverable currency swap Tranche b-1	(42)	56	56	-	-	-	-
Non-deliverable currency swap Tranche a-1	(482)	1,103	174	295	240	311	85
Non-deliverable currency swap - 3 years	(648)	2,963	466	455	999	1,043	-
Coupon swap - 3 years	180	56	45	35	(25)	-	-
Coupon swap - 3 years	(193)	1,231	313	612	306	-	-
Coupon swap - 3 years	6	216	60	104	52	-	-
Coupon swap - 3 years	104	194	64	112	17	-	-
Coupon swap - 3 years	(255)	820	208	407	204	-	-
Coupon swap - 3 years	(185)	473	124	228	121	-	-
Total	¢ (6,360)	18,568	3,047	4,725	3,932	5,363	1,499

(Continued)

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For cash flow hedges, expected cash flows for the primary instrument and the hedging derivative are presented below:

As of December 31, 2017				
	Expected cash flows - liabilities	Less than 12 months	More than 12 months	
Forward starting swap	¢	1,067	667	400
Plain vanilla swap		90	90	-
Total	¢	1,157	757	400
	Expected cash flows - liabilities	Less than 12 months	More than 12 months	
BID-1931A/OC-CR	¢	44,712	8,129	36,583
BID-1931B/OC-CR		8,557	8,557	-
Total	¢	53,269	16,686	36,583

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As of December 31, 2018, the general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

Detail	PR003 Tranche A D091319	PFI-019 US dollar/colón Tranche A-1 EI5-96556	PR004 Yen NEM12618ICE	PF-021 Yen C74569	US dollar/colón - 3 years C34812601207	PF1022 US dollar/colón - 3 years C3489721003	PF1024 US dollar/colón - 3 years C38910	PF1026 US dollar/colón - 3 years C79164	PF1027 US dollar/colón - 3 years C3489850286	PF1023 US dollar/colón - 3 years C3489721052	PF1025 US dollar/colón - 3 years C38912
Hedged debt	BID-1931 A OC-CR	PR003	JIBC-CR-P3	JIBC-CR-P3	2043 bonds	BID-1908	BID-1908	2021 bond	2021 bond	2043 bond	2043 bond
Hedged principal amount	USD 71.3	USD 71,250	JPY 4,389	JPY 4,474	USD 200	USD 50	USD 50	USD 200	USD 200	USD 50	USD 50
Hedged amount per exchange rate	USD 171.0	CRC 114	USD 8,170	USD 5,219	CRC 200,000	CRC 27,815	CRC 27,815	CRC 110,850	CRC 110,850	CRC 27,815	CRC 27,716
Exchange rate	N/A	CRC 533	USD 91	USD 123.3	CRC 566.08	CRC 556.29	CRC 554.31	CRC 554.25	CRC 554.25	CRC 556.29	CRC 554.31
Contract date	27.01.2009	18.09.2015	20.10.2009	03.12.2015	22.11.2017	23.11.2016	23.11.2016	09.12.2016	09.12.2016	23.11.2016	23.11.2016
Hedge inception date or first payment	14.01.2010	14.01.2016	22.10.2012	20.04.2016	15.11.2017	25.11.2016	25.11.2016	10.11.2016	10.11.2016	14.11.2016	14.11.2016
Hedge maturity date	14.07.2023	14.07.2023	20.04.2026	20.04.2026	15.11.2020	25.11.2019	25.11.2019	10.11.2019	10.11.2019	14.11.2019	14.11.2019
Term rate	14 years	7 years, 8 months and 5	14 years	10 years and 5 months	3 years	3 years	3 years	5 years	5 years	6 years	7 years
Base rate	6M LIBOR	3.25%	2.20%	-	6M LIBOR	6M LIBOR	6M LIBOR	6.95% ^a	6.95% ^a	6.375% ^a	6.375% ^a
Spread over under base rate	3.63%	-	-	-	-	0.90 pb	0.90 pb	-	-	-	-
Variable rate	-	-	-	-	-	-	-	-	-	-	-
Total fixed rate	6.86%	4.23%	5.11%	5.01%	-	3.05%	3.05%	-	-	-	-
Strategy	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge
Hedged risk	Interest rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate	Exchange rate
Instrument	Interest rate swap	US dollar/colón	Cross-currency swap	Cross-currency swap	US dollar/colón	US dollar/colón	US dollar/colón	US dollar/colón	US dollar/colón	US dollar/colón	US dollar/colón
		Non-deliverable exchange of payment flows			Non-deliverable cross-currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap

Source: Financing process and Investments.

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 Grupo 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 Grupo 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 Grupo 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 2018, 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:

		As of December 31,	
		2018	2017
			(Restated)*
Debt to equity ratio			
Total liabilities	¢	3,432,104	3,251,479
(-) Cash and cash equivalents		(138,655)	(188,420)
Net debt		3,293,449	3,063,059
Total equity		2,635,642	2,770,650
(-) Amounts accumulated in equity related to cash flow hedges		(41,786)	(16,267)
Adjusted equity	¢	2,593,856	2,754,383
Debt to equity ratio	¢	1.270	1.112

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)Estimation of potential losses:

Pursuant to SUGEVAL's methodology, 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%
	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%
	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%

Local ratings		
Term	Rating	Weighting factor
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%

Category	International rating		Local rating	
	Long term	Short term	Long term	Short term
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-AA and AA(cri)	Scr-1 and F1(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, 2018, 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)

As of December 31, 2018, risk ratings reported for Grupo ICE are as follows:

Issuer	ISIN	Instrument	Risk rating
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 Central de Costa Rica	CRBCCR0B4080	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.	CRBDVIB0088	Davivienda bond	AAA(cri)
Banco de Costa Rica	CRBCR00B3552	BCR bond	AA+(cri)
Banco Internacional de C.R. -Miami-	0NR0ICE00358	2747 IDB overnight deposit	BB+
Banco Internacional de C.R. -Miami-	0NR0ICE00689	ELB overnight deposit	BB+
Banco Nacional de Costa Rica	CRBNCR0B1737	Repurchase operation	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	CRBPDC0B7168	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7275	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7309	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7556	BPDC bond	AA+(cri)
Banco PRIVAL,S.A. (formerly BANSOL Banco de Soluciones)	00PRIVAE0500	Term certificate of deposit (global bond)	SCR2
Banco Promérica	CRBPR0MB1359	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
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO bond	SCR AAA
Government	CRBPDC0B6954	Central Bank bond	BB-
Government	CRG0000B01H3	Central Bank bond	BB-
Government	0NR0ICE00802	Zero-coupon Central Bank bond (over the counter)	BB-
Government	CRG0000B11H2	Central Bank bond	BB-
Government	CRG0000B1619	Zero-coupon Central Bank global bond	BB-
Government	CRG0000B20I1	Central Bank bond	BB-
Government	CRG0000B21I9	Central Bank bond	BB-
Government	CRG0000B27H8	Central Bank bond	BB-
Government	CRG0000B29H4	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	CRG0000B72G6	Central Bank bond	BB-
Government	CRG0000B76H5	Sovereign adjustable real Central Bank bond	BB-
Government	CRG0000B82H3	Central Bank bond	BB-
Government	CRG0000B96G5	Central Bank bond	BB-
Government	USP3699PAA59	External debt bond - Costa Rica	BB-
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	CRMADAPB2467	MADAP bond	SCR AA
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	CRMADAPB2475	MADAP bond	AA+(cri)
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	CRMADAPB2525	MADAP bond	SCR AA+
La Nación S.A.	CRNACIOB0175	La Nación S.A. bond	SCR AAA
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 Petroleo	CRRECOPB0012	RECOPE standardized bond	AAA (cri)
Refinadora Costarricense de Petroleo	CRRECOPB0020	RECOPE standardized bond	AAA (cri)
SAFI BAC San José	SAJCPeFI	F.I. BAC San José liquid, non-diversified	SCR AA+F2
SAFI Banco de Costa Rica	FI-000000066	F.I. BCR mixed dollars, non-diversified	SCR AAF2
SAFI Banco Nacional de Costa Rica	BNASUPER\$FI	F.I. BN super fondo dollars, non-diversified	F1+ (cri)
SAFI Banco Nacional de Costa Rica	BNASUPERcFI	F.I. BN super fondo colones, non-diversified	SCR AAF2
SAFI Instituto Nacional de Seguros	BACLAD\$FI	F.I. non-diversified INS - liquidity	SCR AAF 2

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Note 36. Contingent assets and liabilities

As of December 31, 2017, judicial processes involving Grupo ICE are as follows:

	Number of cases	Estimated amount of the claim	As of December 31,	
			2018	2017
			Litigation provision	
<u>Contingent assets – lawsuits filed by</u>				
<u>Grupo ICE:</u>				
Execution of judgment (administrative) (1)	30	¢ 5,546	-	-
Ordinary administrative (2)	17	4,869	-	-
Other	134	671	-	-
Total contingent assets	181	¢ 11,087	-	-
<u>Contingent liabilities – lawsuits filed</u>				
<u>against Grupo ICE:</u>				
Proceedings before the Administrative and Civil Court of Finance (3)	21	¢ 43,755	306	71
Ordinary (administrative)	32	7,115	576	578
Administrative proceedings	118	812	48	-
Execution of judgment (administrative)	8	44	44	43
Other	87	80,173	688	1,157
Total contingent liabilities	266	¢ 131,898	1,661	1,849
Less reclassification of non-current portion			347	609
Current portion			¢ 1,314	1,240

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

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.
- 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:

Contingent assets:

- (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, 2018 and 2017 is ¢3,781.
- (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. As of December 31, 2018 and 2017, the estimated amount is ¢1,030.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Contingent liabilities:

- (3) 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, 2018 and 2017, the estimated amount of the case is ¢2,158.

The main proceedings related to one of its subsidiaries include:

- i. 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 ¢21,047.
- ii. 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 ¢7,690.
- iii. 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 ¢11,138.

These legal proceedings correspond to the subsidiary CNFL. It has made the corresponding legal appeals. As of December 31, 2018, there are insufficient elements to establish the possible outcome. Due to this uncertainty in the final outcome of other proceedings, the subsidiary's management has not considered it necessary to create a provision for potential losses.

In addition, as of December 31, 2018, 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 (approximately ¢5,092).

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(In millions of colones)

Subsequently, P.H. Chucás, S.A. began an arbitration process before the International Center for Conciliation and Arbitration (CICA), an entity affiliated to the Costa Rican-American Chamber of Commerce (AmCham), claiming the recognition of the excess costs incurred in the construction of the hydroelectric power plant and declaring that ICE was not entitled to a fine since the delay was caused by force majeure events. The alleged excess costs amount to US\$173 (the budgeted cost for construction was US\$107, but the final cost reported to the arbitration tribunal was approximately US\$280). 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 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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(In millions of colones)(b) Hidrotárcoles Project:

The Capulín Hydroelectric Plant 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 P.H. Hidrotárcoles, S.A. had to begin the construction of the plant in August 2012, and the beginning of commercial operations was scheduled for August 2015. However, due to delays in the construction process, ICE initiated administrative proceedings in December 2015 seeking termination of this agreement as well as a reprimand and warning to P.H. Hidrotárcoles, S.A. due to noncompliance with the guaranteed date for beginning of operations, given that at the date when the plant should have been completed the progress was 20%. 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 commercial operations and to sentence ICE to the payment of damages, among others.

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 rejecting 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 for substitution of members of the Órgano Director (Directing Body), and it even filed a judicial complaint against the officials that make up that body; however, all motions of recusal were rejected and the judicial complaint was declared inadmissible by the Administrative Court in January 2018.

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 noncompliance 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.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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(In millions of colones)

On January 18, 2018, within the established term, P.H. Hidrotárcoles, S.A. formally filed before ICE 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 on April 12, 2018. Consequently, all available administrative remedies were exhausted.

On May 3, 2018, the Administrative Court notified ICE of a request for urgent precautionary measures filed by Banco Nacional de Costa Rica, so that ICE would immediately take possession and assume control of the Capulín San Pablo Hydroelectric Project while the dispute between the parties is resolved in the ordinary venue.

Through Resolution No. 571-2018-T dated October 5, 2018, the Administrative Court rejected the precautionary measure requested by Banco Nacional de Costa Rica. However, on October 11, 2018, the legal representatives of Banco Nacional de Costa Rica filed an appeal against the resolution, which was admitted. In the hearing for the appeal, held on November 27, 2018, the Court of Appeals rejected the precautionary measure requested, and upheld that set forth in Resolution No. 571-2018-T. On December 18, 2018, Banco Nacional de Costa Rica filed proceedings leading to a declaratory judgment against ICE, under file No. 18-011428-1027-CA.

In addition, on May 3, 2018, the Administrative Court notified a request for urgent precautionary measures filed by P.H. Hidrotárcoles, S.A. against ICE and Banco Nacional de Costa Rica, requesting suspension of the execution of the following actions: regarding ICE, final action of the proceeding for termination of the agreement and resolution of the appeal; and regarding Banco Nacional de Costa Rica, suspension of the disbursements and execution of the performance bonds. The request for precautionary measures was denied by the Administrative Court in a resolution from April 26, 2018, and a hearing was granted to both parties. Subsequently, through resolution No. 420-2018-T of 9:15 hours of July 18, 2018, the Administrative Court ruled the final dismissal of said precautionary measure.

On July 24, 2018, P.H. Hidrotárcoles, S.A. appealed resolution No. 420-2018-T. In the hearing held on September 24, 2018, the Court of Appeals, through resolution No. 397-2018-II, remitted the appealed resolution to the judge of first instance due to procedural defects. On November 12, 2018, the judge of first instance, through resolution No. 634-2018-T annulled on all grounds the precautionary measure filed. P.H. Hidrotárcoles, S.A. appealed resolution No. 634-2018-T, and was granted a hearing on January 24, 2019. This hearing was suspended due to procedural aspects. Currently awaiting the summons to a new hearing.

As of December 31, 2018, Grupo ICE created a provision in the amount of ¢1,314 (2017: ¢1,420) related to the lawsuits mentioned in the contingent liabilities table.

Due to uncertainty in the final outcome of the lawsuits, as of December 31, 2018, Grupo ICE did not include any additional accrual to cover the potential future obligations.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Note 36. 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,			
	2018	2017	2018	2017
<i>Construction services:</i>				
Uno P.H., Reventazón/Scotiabank/2013 Trust	¢ 362	1,497	-	1,665
National Emergency Commission (CNE)	10,252	-	-	-
Other related entities	887	-	-	-
<i>Advisory services:</i>				
AYA	-	2,004	-	2,272
CONAVI	-	971	-	844
National Emergency Commission (CNE)	-	2,843	-	2,829
<i>Sale of energy:</i>				
Government entities	5,785	5,251	-	-
<i>Interest:</i>				
Government entities	6,204	5,252	-	-
Autonomous institutions	1,393	-	-	-
State-owned financial entities	5,226	5,480	12,218	11,299
<i>Other services:</i>				
Government entities	29,620	2,314	4,807	1,708
Autonomous institutions	-	-	-	619
State-owned financial entities (1)	-	-	56,670	52,707
Other related parties	-	2,041	641	409
¢	59,729	27,653	74,336	74,352

- (1) Correspond to the lease payments of the Garabito, Cariblanco and Toro III Trusts, as well as a maintenance payment for buildings and facilities in the amount of ¢390.

Sales 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.

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Outstanding receivable and payable balances at the end of the reporting period are as follows:

		Receivable		Payable	
		As of December 31,			
		2018	2017	2018	2017
Government entities	¢	6,217	5,149	622	-
Autonomous institutions		13,904	-	5,831	-
State-owned financial entities		-	-	4,579	-
Other related parties		-	-	8	100
	¢	20,121	5,149	11,040	100

These balances do not include utility expenses (electricity, water, telecommunications, social security and taxes), respectively.

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, 2018, loans and leases payable with State-owned financial entities amounted to ¢253,275 (2017: ¢258,717).

The following balances correspond to financial investments and restricted funds, placed through State-owned financial entities:

		As of December 31,	
		2018	2017
Cash equivalents	¢	17,682	41,522
Held to maturity		116,267	109,420
Restricted funds		1,017	1,301
	¢	134,966	152,243

As of December 31, 2018, interest receivable on securities with State-owned financial entities amounts to ¢3,166 (2017: ¢1,895).

As of December 31, 2018, ownership interest in autonomous and non-governmental agencies amount to ¢30,768 (2017: ¢30,649) (see Note 10).

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Compensation to key management personnel

Compensation to directors and other key management personnel is as follows:

		As of December 31,	
		2018	2017
Short-term benefits	¢	5,550	6,552
Post-employment benefits		1,362	782
Other long-term benefits		136	798
Severance benefits		-	3
	¢	7,048	8,135

Compensation to key management personnel includes wages and contributions to a defined benefit plan (severance benefits) and other long-term benefits paid during the year.

Note 37. 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), Cable Visión de Costa Rica, S.A. (CVCR) and Gestión Cobro Grupo ICE, S.A. (93.34%).
- Electricity Segment, which includes ICE's Electricity Sector, Compañía Nacional de Fuerza y Luz, S.A. (CNFL) and Gestión Cobro Grupo ICE, S.A. (6.66%).

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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(b) Products and services that generate revenue for the reportable segments

The types of products and services provided by each segment are detailed in note 1.

(c) Revenue and profit or loss by segment

Below is an analysis of revenue and profit or loss from the continuing operations of Grupo ICE's reportable segments:

Profit (loss) per segment	For the years ended December 31,				
	<u>Electricity</u>		<u>Telecom</u>		<u>Consolidated total</u>
	2018	2017	2018	2017	
Income per segment	¢				
Investment income	812,785	767,278	586,783	590,656	1,399,568
Finance costs	15,479	21,962	7,528	7,549	23,007
Foreign exchange differences, net	(185,057)	(166,857)	(14,863)	(10,923)	(199,920)
Income from investments in other companies	(84,022)	(44,967)	(15,585)	(4,988)	(99,607)
Deficit (Surplus), net	431	371	57	12	488
	¢	(223,146)	(33,515)	1,414	(256,944)
					(62,725)

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 ¢6,540 (2017: ¢6,506).
- Revenue from the sale of services by the Telecom Segment to the Electricity Segment in the amount of ¢2,490 (2017: ¢2,283).

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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, investment 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.

(a) Assets and liabilities by segment

		For the years ended December 31,				
		Electricity		Telecommunications		Consolidated total
		2018	2017	2018	2017	
Segment assets and liabilities						
Assets	¢	4,796,756	4,779,497	1,270,989	1,242,633	6,067,745
Liabilities		2,948,610	2,909,068	483,493	342,413	3,432,103
						3,251,480

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.

(Continued)

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(In millions of colones)(b) Other segment information

		Depreciation and amortization		Additions to non-current assets	
		As of December 31,		As of December 31,	
		2018	2017	2018	2017
Telecom Segment	¢	139,424	120,389	13,846	155,175
Electricity Segment		174,271	170,502	105,597	208,578
Total	¢	313,695	290,891	119,443	363,753

Note 38. Subsequent events*a) Loan agreement No. 3589 with Inter-American Development Bank (IDB)*

On February 7, 2019, loan agreement No. 3589 was subscribed with the Inter-American Development Bank (IDB), for US\$134.5, with a 25-year term. This loan agreement corresponds to the financing and execution of the *Primer Programa de Energía Renovable, Transmisión y Distribución de Electricidad* (First Renewable Energy, Electricity Transmission and Distribution Program), which aims to increase the electric supply through renewable energies by means of the construction of the Las Pailas II and Borinquen I geothermal power plants, and other additional electric infrastructure.

b) Assignment of Rights and Obligations by Cable Visión de Costa Rica S.A. (CVCR) to ICE

As established in the agreement reached by Grupo ICE's board of directors in the ordinary meeting of January 14, 2019, CVCR assigned its rights and obligations to ICE in order to guarantee continuity and the quality of telecom and internet services provided by the cable company and to strengthen its offer, which will enter into effect on September 1, 2019. Consequently, as of that date the rights and obligations will be absorbed by ICE (the parent company). Once the assignment of rights and obligations is completed, and there are no pending liabilities on behalf of CVCR, Grupo ICE will assess whether to maintain CVCR's corporate ID active or dissolve the entity.