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

Consolidated Financial Statements

December 31, 2019
(With corresponding figures for 2018)

(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, 2019, 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, 2018 of the matter mentioned in paragraph one, and except for the possible effects on the consolidated financial statements of the matters described in paragraphs two to four of the *Basis for Qualified Opinion* section, the accompanying consolidated financial statements of Grupo ICE as of December 31, 2019 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 of December 31, 2018, as indicated in Note 19 "Financial debt", ICE held loan agreements and finance lease obligations in the amount of ¢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 of a minimum of 12 months, as required by ICE's accounting policies. Consequently, as of December 31, 2018, ICE had to reclassify 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 were overestimated and underestimated, respectively, in the amount of ¢760,729 (in millions). Our audit opinion on the 2018 consolidated financial statements, dated May 28, 2019, was modified accordingly. Our opinion on the current period's consolidated financial statements is also modified because of the effect of this matter on the comparability of the current period's figures and the corresponding figures.

As of December 31, 2018, the consolidated financial statements included “Accounts payable-other creditors” in the amount of ¢68,893 (in millions). Since the subledgers after that date were not provided to us in a timely manner, we were unable to test subsequent payments related to those accounts payable or perform other audit procedures. Additionally, as of that date, we were unable to confirm balances due to suppliers or satisfy ourselves through alternative means, since we did not obtain the accounts payable subledgers or purchase databases in a timely manner. Furthermore, for a sample of suppliers we were unable to verify compliance with the terms set forth in the agreements subscribed with those parties. Due to the limitations in 2018, we were unable to satisfy ourselves as to the completeness, existence and accuracy of those liabilities as of December 31, 2018 and were unable to determine the effects of that limitation on the net surplus reported in the consolidated statement of income and expenses and other comprehensive income for the year ended December 31, 2019.

As of December 31, 2018, the consolidated financial statements included inventories for a total of ¢255,430 (in millions) in the accounts “Inventories” (see Note 14) and “Other assets - inventory for investment projects” (see Note 8), on which we performed a physical inventory count after December 31, 2018. However, since the movement in inventory after that date was not available, we were unable to roll-back the amounts and inventory quantities from the date of the physical count to December 31, 2018 and were unable to compare the results of the physical count of the selected items with the inventory quantities included in the subledger as of that date. Additionally, as of December 31, 2018, for the inventories included in the accounts “Operating inventory” (see Note 14), “Other assets - inventory for investment projects” (see Note 8) and “Material and equipment held in custody” (see Note 14), amounting to ¢94,725 (in millions), ¢131,544 (in millions) and ¢29,161 (in millions), respectively, we selected a sample of items for review to verify the accuracy of the unit costs. However, management did not provide us with all of the supporting documentation required. Consequently, we were unable to complete our testing or apply other audit procedures. Due to the limitations in 2018, we were unable to satisfy ourselves as to the inventory quantities of “operating inventory” and “inventory for investment projects” or the accuracy of “operating inventory”, “other assets - inventory for investment projects” and “material and equipment held in custody” as of December 31, 2018. Consequently, we were unable to determine whether adjustments might be necessary to the balances of those assets, the net deficit and the development reserve as of and for the year then ended. Additionally, since opening inventories affect the determination of profit or loss for the year and cash flows, we were unable to determine whether adjustments might be necessary to the net surplus included in the consolidated statement of income and expenses and other comprehensive income or cash flows from operating and from investing activities reported in the consolidated statement of cash flows for the year ended December 31, 2019.

As indicated in Note 18, as of December 31, 2019, the consolidated financial statements include a cash balance of ¢203,412 (in millions) (2018: ¢138,655 (in millions)), which include checking accounts that were reconciled with the balances of bank account statements. Those bank reconciliations include negative and positive reconciliation items pending analysis of ¢31,273 (in millions) and ¢32,748 (in millions), respectively (2018: ¢44,615 (in millions) and ¢41,862 (in millions), respectively), between the recorded balances and the account statements. We were unable to satisfy ourselves as to the nature and reasonableness of those reconciliation items or determine whether adjustments might be necessary to the cash balance and the balances of other accounts in the consolidated financial statements as of December 31, 2019 and 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Grupo ICE in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Costa Rica and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 to determine the nature and origin of the reconciliation items evidenced between the collections received and accounts receivable from customers; • 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	How the matter was addressed in our audit
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.	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 testing to establish the completeness, accuracy, and sufficiency of the databases used by the actuaries hired by Grupo ICE to measure the aforementioned benefits; • reviewing the actuarial study performed by management with the support of our actuarial expert; 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, with the support of our actuarial expert.
3. Provisions and contingent liabilities	
We considered this area to be a key audit matter mainly because the elements considered for the measurement, recording, and disclosure of a provision or contingent liability involve a significant level of judgment and the uncertainty of the sources of information used for that measurement.	Our audit procedures in this area included: • obtaining an understanding of the process designed for the determination, compilation, analysis, and follow-up of legal proceedings or lawsuits filed against Grupo ICE; • obtaining a breakdown of all legal proceedings as of December 31, 2019, including the probability of a favorable outcome and its impact on the consolidated financial statements; and • based on a sample of selected cases, discussing and challenging the elements used to determine the probability of a favorable outcome assigned to those cases.

Key audit matter	How the matter was addressed in our audit
4. Adoption of International Financial Reporting Standard No. 9 *Financial Instruments* (IFRS 9) We considered this area to be a key audit matter mainly due to the impact of the adoption of this standard on the classification, measurement and presentation of the portfolio of investments in financial instruments and on the calculation of the expected loss on the impairment of accounts and notes receivable.	Our audit procedures in this area included involvement of an expert for: • obtaining an understanding of the methodology used for the calculation of the allowances for expected credit losses on accounts and notes receivable; • verifying that the methodology applied by management was consistent with the minimum guidelines set forth in IFRS 9; • recalculating the allowances for expected credit losses on accounts and notes receivable; • obtaining an understanding of the business model used by management to manage the portfolio of investments in financial instruments, and on that basis, assessing the adequate classification of those investments based on the classification criteria under IFRS 9; • analyzing the considerations used by management to determine the "solely payments of principal and interest" (SPPI) tests and compare them to IFRS 9 guidelines; and • reviewing the effects of the adoption of IFRS 9 on the classification and measurement of the financial instruments.

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.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Grupo ICE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Grupo ICE to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Grupo ICE to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the 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 29, 2020

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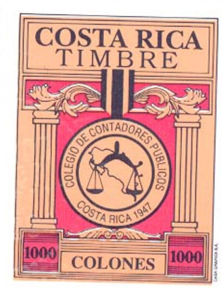

San José, Costa Rica
Randall Mora Acuña
Member No. 2429
Policy No. 0116-FIG-7
Expires 09/30/2020

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

Consolidated Statement of Financial Position
(In millions of colones)

December 31, 2019
(With corresponding figures for 2018)

Assets	Note		2019	2018 *(Restated)**
Non-current assets:				
Property, plant and equipment, net	8	¢	4,949,308	5,023,345
Intangible assets, net	9		111,168	91,684
Equity investments	10		36,517	32,542
Notes and other accounts receivable, net	11		2,158	2,994
Investments in financial instruments	12		73,869	122,529
Guarantee and Savings Fund	13		222,645	222,212
Total non-current assets			5,395,665	5,495,306
Current assets:				
Inventories, net	14		86,687	112,366
Notes and other accounts receivable, net	11		66,586	93,916
Temporary investments	15		120,316	53,486
Restricted funds			1,978	1,017
Trade receivables, net	16		148,433	120,518
Prepaid expenses	17		39,861	50,771
Other assets			7,135	79
Cash and cash equivalents	18		203,412	138,655
Total current assets			674,408	570,808
Total assets		¢	6,070,073	6,066,114
Liabilities and equity				
Equity:				
Paid-in capital		¢	155	155
Other reserves			16,116	14,750
Restricted earnings from capitalization of shares in susbsidiary			62,380	62,380
Actuarial losses (gains)			(12,213)	22,620
Income from investments in other companies			272	66
Valuation of non-derivative financial instruments and hedges			(3,813)	(38,786)
Retained earnings			310,109	318,559
Development reserve			2,378,255	2,248,883
Equity attributable to owners of ICE			2,751,261	2,628,627
Non-controlling interests			5,585	5,739
Equity, net			2,756,846	2,634,366
Liabilities:				
Non-current liabilities:				
Securities payable	19(a)		1,090,118	1,211,765
Loans payable	19(b)		899,030	887,060
Finance lease obligations	19(c)		457,145	488,057
Employee benefits	20		72,037	42,657
Accounts payable	21		6,845	7,605
Prepaid income	22		8,959	6,495
Guarantee and Savings Fund	13		222,645	222,212
Deferred tax liability, net	31		100,319	105,894
210510 Other provisions			413	347
Other liabilities	23		56,968	53,967
Total non-current liabilities			2,914,479	3,026,059
Current liabilities:				
Securities payable	19(a)		63,026	19,482
Loans payable	19(b)		87,129	93,133
Finance lease obligations	19(c)		20,110	20,189
Employee benefits	20		8,023	7,291
220901 Accounts payable	21		122,362	163,606
Prepaid income	22		23,628	28,164
Accrued employer obligations payable	24		48,487	46,498
Accrued interest payable			14,713	17,811
Other provisions			1,443	2,860
Other liabilities	23		9,827	6,655
Total current liabilities			398,748	405,689
Total liabilities			3,313,227	3,431,748
Total liabilities and equity		¢	6,070,073	6,066,114
Memoranda accounts	25	¢	191,452	186,256

(*) See Note 30.

The notes on pages 1 to 185 are an integral part of these consolidated financial statements.

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Juan Carlos Pacheco Romero
Head of the Finance Department

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Hazel Cepeda Hodgson
General Manager

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Jeimy 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, 2019
(With corresponding figures for 2018)

	Note		2019	2018 *(Restated)**
Operating income:				
Electricity services	26	¢	851,719	812,785
Telecom services	26		607,645	586,783
Total operating income			1,459,364	1,399,568
Operating costs:				
Operation and maintenance			510,998	512,946
Operation and maintenance of leased equipment			110,591	112,272
Supplemental services and purchases			223,923	209,802
Production management			72,267	68,529
Total operating costs	27		917,779	903,549
Gross surplus			541,585	496,019
Other income	28		74,052	37,134
Operating expenses:				
Administrative			134,213	130,794
Selling expenses			240,627	222,539
Preliminary studies			25,745	26,801
Supplemental			22,308	95,155
Loss on impairment of trade receivables	27 and 32		20,558	9,008
Other expenses			33,509	34,472
Total operating expenses	27		476,960	518,769
Operating surplus			138,677	14,384
Finance income and finance costs:	29			
Investment income			23,202	23,015
Finance costs			(180,572)	(199,920)
Foreign exchange differences, net			129,161	(99,607)
Income from investments in other companies			295	488
Total finance income and finance costs, net			(27,914)	(276,024)
Net surplus (deficit) before income tax			110,763	(261,640)
Income tax:	31			
Current			(695)	(723)
Deferred			6,536	6,198
Total income tax			5,841	5,475
Net surplus (deficit), net		¢	116,604	(256,165)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Effect of actuarial (gains) losses for the year			(34,921)	13,830
Effect of eliminations of reciprocal transactions			7,751	960
Loss on assignment of rights and obligations of the subsidiary			(3,086)	-
Subtotal			(30,256)	14,790
Items that are or may be reclassified subsequently to profit or loss:				
Measurement of fair value of investments in associates (EPR)			342	-
Gain (loss) on fair value of cash flow hedges			33,554	(23,968)
Gain (loss) on investments at fair value through other comprehensive income			1,419	(1,551)
Subtotal			35,315	(25,519)
Other comprehensive income			5,059	(10,729)
Total comprehensive income for the year			121,663	(266,894)
Income for the year attributable to:				
Owners of ICE			116,855	(255,882)
Non-controlling interests			(251)	(283)
Total			116,604	(256,165)
Total comprehensive income for the year attributable to:				
Owners of ICE			121,663	(266,894)
Total		¢	121,663	(266,894)

(*) See Note 30.

The notes on pages 1 to 185 are an integral part of these consolidated financial statements.

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Hazel Cepeda Hodgson
General Manager

JEIMY SANCHEZ UMAÑA (FIRMA) Firmado digitalmente por JEIMY SANCHEZ UMAÑA (FIRMA) Fecha: 2020.06.30 15:56:01 -06'00'
Jeimy Sánchez Umaña
Accounting Process Coordinator

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

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

For the year ended December 31, 2019
(With corresponding figures for 2018)

	Note	Paid-in capital	Other reserves: Legal reserve	Other reserves: Project development reserve	Other reserves: Capital reserve	Other reserves: Total	Restricted earnings from capitalization of investment in subsidiary	Actuarial gains (losses)	Profit (loss) on investment in other companies	Valuation of non-derivative financial instruments and hedges	Retained earnings	Development reserve	Equity attributable to owners of ICE	Non-controlling interests	Net equity
Balance at January 1, 2018, previously reported		₡ 155	13,595	71	-	13,666	62,380	8,811	(185)	(16,267)	334,015	2,494,488	2,897,063	6,001	2,903,064
Adjustment on initial application of IFRS 9	30	-	-	-	-	-	-	-	-	3,000	-	(5,055)	(2,055)	-	(2,055)
Balance at January 1, 2018, restated		155	13,595	71	-	13,666	62,380	8,811	(185)	(13,267)	334,015	2,489,433	2,895,008	6,001	2,901,009
Deficit for the year, restated		-	-	-	-	-	-	-	-	-	(15,241)	(240,641)	(255,882)	(283)	(256,165)
Other comprehensive income for the year:													-		
Effect of eliminations of reciprocal transactions		-	-	-	-	-	-	-	-	-	869	91	960	-	960
Effect of actuarial gain for the year	20	-	-	-	-	-	-	13,809	-	-	-	-	13,809	21	13,830
Net loss on fair value of cash flow hedges		-	-	-	-	-	-	-	-	(23,968)	-	-	(23,968)	-	(23,968)
Loss on investments at fair value through other comprehensive income		-	-	-	-	-	-	-	-	(1,551)	-	-	(1,551)	-	(1,551)
Total other comprehensive income for the year		-	-	-	-	-	-	13,809	-	(25,519)	(14,372)	(240,550)	(266,632)	(262)	(266,894)
Comprehensive income for the year:															
Profit (loss) on investments in other companies		-	-	-	-	-	-	-	251	-	-	-	251	-	251
Appropriation to legal reserve		-	1,084	-	-	1,084	-	-	-	-	(1,084)	-	-	-	-
Total comprehensive income for the year		-	1,084	-	-	1,084	-	-	251	-	(1,084)	-	251	-	251
Balance at December 31, 2018, restated		155	14,679	71	-	14,750	62,380	22,620	66	(38,786)	318,559	2,248,883	2,628,627	5,739	2,634,366
Comprehensive income for the year:															
Surplus for the year		-	-	-	-	-	-	-	-	-	(15,464)	132,319	116,855	(251)	116,604
Other comprehensive income for the year:															
Effect of variation in eliminations of reciprocal transactions		-	-	-	-	-	-	-	-	-	1,163	6,413	7,576	175	7,751
Effect of actuarial loss for the year	20	-	-	-	-	-	-	(34,833)	-	-	-	-	(34,833)	(88)	(34,921)
Net gain on fair value of cash flow hedges		-	-	-	-	-	-	-	-	33,554	-	-	33,554	-	33,554
Loss on investments at fair value through other comprehensive income		-	-	-	-	-	-	-	-	1,419	-	-	1,419	-	1,419
Transfer due to assignment of rights and obligations of subsidiary		-	-	-	-	-	-	-	-	-	6,274	(9,360)	(3,086)	-	(3,086)
Measurement of fair value of investments in associates (EPR)		-	-	-	-	-	-	-	342	-	-	-	342	-	342
Total other comprehensive income for the year		-	-	-	-	-	-	(34,833)	342	34,973	(8,027)	129,372	121,827	(164)	121,663
Comprehensive income for the year:															
Profit (loss) on investments in other companies		-	-	-	-	-	-	-	(136)	-	307	-	171	-	171
Appropriation to legal reserve		-	720	-	646	1,366	-	-	-	-	(730)	-	636	10	646
Transfer to capital reserve		-	(12,071)	-	12,071	-	-	-	-	-	-	-	-	-	-
Movements for the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		-	(11,351)	-	12,717	1,366	-	-	(136)	-	(423)	-	807	10	817
Balance at December 31, 2019		₡ 155	3,328	71	12,717	16,116	62,380	(12,213)	272	(3,813)	310,109	2,378,255	2,751,261	5,585	2,756,846

The notes on pages 1 to 185 are an integral part of these consolidated financial statements.

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Head of the Finance Department

HAZEL MARIA CEPEDA HODGSON (FIRMA)
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Hazel Cepeda Hodgson
General Manager

JEIMY SANCHEZ UMAÑA (FIRMA)
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Jeimy Sánchez Umaña
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, 2019
(With corresponding figures for 2018)

	Note		2019	2018 *(Restated)**
Cash flows from operating activities				
Surplus (deficit) for the year		¢	116,604	(256,165)
Adjustments for:				
Depreciation	8		283,153	290,002
Finance costs			172,493	143,396
Severance benefits	20		1,056	(16,466)
Statutory Christmas bonus	24		13,961	18,165
Back-to-school bonus	24		15,196	19,169
Accrued vacation	24		18,517	19,552
Loss on impairment of trade receivables			20,558	9,008
Allowance for valuation of inventory	14		8,922	1,809
Expense on disposal of assets			11,384	23,876
Expense on disposal of construction work in progress	8		23,769	109,921
Amortization of intangible assets	9		26,309	23,694
Net realizable value			(2,680)	(285)
Provision for litigations and mobile terminals			(272)	(216)
Foreign exchange differences	19 (d)		(127,565)	126,822
Income tax			(5,844)	(5,475)
Loss (gain) on valuation of financial instruments			38,328	(29,242)
Gain on transfer of assets			(18,121)	-
Amortization of prepaid income			(3,059)	-
Accrued interest			(23,202)	(19,416)
			569,507	458,149
Changes in:				
Trade receivables and other accounts receivable			(35,780)	(52,641)
Inventories			18,358	(16,848)
Other assets			(460)	(1,792)
Accounts payable			(42,004)	54,872
Employee benefits			(5,799)	(28,386)
Prepaid income			987	9,023
Employer obligations			(75,810)	(80,653)
Other liabilities			1,013	1,227
Other reserves			646	-
Cash flows from operating activities			430,658	342,951
Interest paid			(183,670)	(149,197)
Tax paid			(695)	(723)
Interest received			34,836	17,020
Net cash from operating activities			281,129	210,051
Cash flows from investing activities				
Investments in subsidiaries			-	132
Purchase of long-term investments			(20,085)	(77,381)
Maturity of long-term investments			70,550	62,610
Additions to property, plant and equipment			(199,557)	(159,647)
Increase in intangible assets			(23,004)	(27,672)
Purchase of temporary investments			(135,964)	(46,268)
Maturity of temporary investments			69,134	46,947
Net cash used in investing activities			(238,926)	(201,279)
Cash flows from financing activities:				
Increase in securities payable	19 (d)		-	18,672
Amortization of securities payable	19 (d)		(20,255)	-
Increase in loans payable	19 (d)		207,934	51,427
Amortization of loans payable	19 (d)		(155,273)	(103,206)
Amortization of finance leases	19 (d)		(11,224)	(23,652)
Net cash from (used in) financing activities			21,182	(56,759)
Net increase (decrease) in cash and cash equivalents			63,385	(47,987)
Cash and cash equivalents at beginning of year			138,655	188,420
Effect of movements in exchange rates on cash held			1,372	(1,778)
Cash and cash equivalents at end of year	18	¢	203,412	138,655

(*) See Note 30.

The notes on pages 1 to 185 are an integral part of these consolidated financial statements.

JUAN CARLOS PACHECO ROMERO (FIRMA) Firmado digitalmente por JUAN CARLOS PACHECO ROMERO (FIRMA) Fecha: 2020.07.08 15:21:50 -06'00'

Juan Carlos Pacheco Romero
Head of the Finance Department

HAZEL MARIA CEPEDA HODGSON (FIRMA) Firmado digitalmente por HAZEL MARIA CEPEDA HODGSON (FIRMA) Fecha: 2020.07.08 19:24:12 -06'00'

Hazel Cepeda Hodgson
General Manager

JEIMY SANCHEZ UMAÑA (FIRMA) Firmado digitalmente por JEIMY SANCHEZ UMAÑA (FIRMA) Fecha: 2020.06.30 15:56:38 -06'00'

Jeimy Sánchez Umaña
Accounting Process Coordinator

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), 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, 2019.

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].

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

Compañía Nacional de Fuerza y Luz, S.A. (CNFL) was organized through Law No. 21 of April 8, 1941. Its main activity is the distribution of electricity in the metropolitan area of San José and some adjoining cantons in Alajuela, Heredia, and Cartago provinces. 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 employees because Grupo ICE provides its accounting and administrative services.

- *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).

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 26, 2020.

This is the first set of annual consolidated financial statements of Grupo ICE in which IFRS 9 *Financial Instruments* has been applied. In addition, IFRS 15 *Revenue from Contracts with Customers* has been applied to the Electricity Segment. Changes to significant accounting policies are described in Note 6.

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:

Item	Basis of measurement
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Financial assets at fair value through other comprehensive income	Fair value
Financial assets at amortized cost	Amortized cost
Inventories (mobile terminals)	Net realizable value
Financial instrument liabilities	Amortized cost
Net defined benefit liabilities	Fair value

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.

(Continued)

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 27 – Lease term: determining whether the Group is reasonably certain that it will exercise the extension option.
- Note 32 – Financial risk management.

(ii) *Assumptions and estimation uncertainties*

As of December 31, 2019, 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 16 – Measurement of the allowance for expected credit losses (ECLs) on trade receivables and contract assets: key assumptions to determine the weighted-average loss rate.
- Note 20 – Measurement of defined benefit obligations: key actuarial assumptions
- Note 33 – 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)

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

Note 6. <u>Changes in significant accounting policies</u>

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)

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 the corresponding 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 considered 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:

(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
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	2017
IAS 18	Revenue	2017
IAS 23	Borrowing Costs	2017
IAS 28	Investments in Associates and Joint Ventures (except trusts)	2017
IAS 38	Intangible Assets	2017
IFRS 3	Business Combinations	2017
IFRS 7	Financial Instruments: Disclosures	2017
IFRS 11	Joint Arrangements (except trusts)	2017
IFRS 13	Fair Value Measurement	2017
IFRS 9	Financial instruments	2019
IFRS 15	Revenue from Contracts with Customers: except for revenue recognition of the Telecom Segment	2019

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.

This is the first set of annual consolidated financial statements of Grupo ICE in which the following changes to significant accounting policies have been applied:

(Continued)

(a) <u>IFRS 15: Revenue from Contracts with Customers</u>

ICE has initially applied to the Electricity Business the rules for recognition and measurement of revenue from contracts with customers established in IFRS 15, but not to the Telecom Business.

IFRS 15 establishes a global framework for determining whether, how much, and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. Under IFRS 15, revenue is recognized when the customer obtains control of the goods or services. Determining the timing of the transfer of control -at a point in time or over time- requires judgment.

The implementation of the guidelines of IFRS 15 to the Electricity Segment had no effect on revenue recognition for the year ended December 31, 2019.

ICE has adopted IFRS 15 for the Electricity Segment using the cumulative effect method (without practical expedients), recognizing the cumulative effect of applying IFRS 15 as of the initial date of application (i.e. January 1, 2018). However, the information presented for 2018 has not been restated, it has been presented as previously reported under IAS 18, IAS 11 and related interpretations, given that IFRS 15 did not have a significant impact on the accounting policies for the recognition of revenue from the Electricity Segment. In addition, the disclosure requirements of IFRS 15 have not been applied to the comparative information.

(b) <u>IFRS 9: Financial Instruments</u>

ICE has initially applied the requirements of IFRS 9, recognizing the effects of this standard as of the date of initial application (January 1, 2018). This standard establishes the requirements for recognition and measurement of financial assets and liabilities, as well as some purchase/sale contracts on non-financial items. This Standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, ICE has adopted modifications in conformity with IAS 1 *Presentation of Financial Statements*, which require the impairment of financial assets to be presented in a separate item of the statement of income and expenses and other comprehensive income. Previously, ICE included impairment on trade receivables and accounts receivable under selling expenses (trade receivables) and production management (accounts receivable). Consequently, ICE reclassified impairment losses in the amount of ¢20,558 (2018: ¢9,008) recognized under IAS 39, from the expense accounts “selling expenses” and “production management” to “loss on impairment of trade receivables” in the consolidated statement of income and expenses and other comprehensive income of Grupo ICE for the years ended December 31, 2019 and 2018.

(Continued)

In addition, ICE has adopted modifications in conformity with IFRS 7 *Financial Instruments: Disclosures*, which are applied to the disclosures for 2019 and 2018, given that the application of IFRS 9 is as of January 1, 2018.

Classification and measurement of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on ICE's accounting policies related to financial liabilities and derivative financial instruments (for derivatives used as hedges see Note 7 b. (iii)).

For an explanation of how ICE classifies and measures financial instruments and how it accounts for related gains and losses under IFRS 9 see Note 7b.

The following table and notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of ICE's financial assets and financial liabilities as of January 1, 2018.

The effect of the adoption of IFRS 9 on the carrying amounts of financial assets as of January 1, 2019 relates to the new classification and measurement of those instruments, as well as the determination of impairment by measuring ECLs on the following balances:

In millions of colones	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	100,760	100,760
Notes receivable and other accounts receivable (a)	Loans and receivables	Amortized cost	132,077	132,077
Investments in financial instruments (securities investments) (b)	Available for sale	FVOCI		62,381
Investments in financial instruments (securities investments) (c)	Available for sale	Amortized cost	170,043	108,888
Trade receivables	Loans and receivables	Amortized cost	114,328	114,328
Equity investments (d)	Historical cost	FVOCI	2,871	4,645
Equity investments (e)	Historical cost	Amortized cost	29,733	29,733
Total financial assets			549,812	552,812
Financial liabilities				
Loans payable	Other financial liabilities	Other financial liabilities	2,522,817	2,522,817
Accounts payable	Other financial liabilities	Other financial liabilities	158,270	158,270
Accrued interest payable	Other financial liabilities	Other financial liabilities	15,026	15,026
Total financial liabilities			2,696,113	2,696,113

a) Notes and accounts receivable previously classified as loans and receivables under IAS 39 are now measured at amortized cost.

(Continued)

b) Securities investments classified as available for sale under IAS 39 are financial instruments held by ICE in a separate portfolio to generate interest income, but they can be sold to meet liquidity requirements that arise in the ordinary course of business. ICE considers that these instruments are maintained in a business model whose objective is to hold assets to collect contractual cash flows and the sale of those instruments. The contractual cash flows of those financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the pending principal amount. Consequently, those assets have been classified as financial assets at fair value through other comprehensive income under IFRS 9.

c) Securities investments classified as available for sale under IAS 39 which ICE classified in a separate portfolio within a business model whose objective is to maintain those instruments to obtain contractual cash flows that correspond to the payment of principal and interests, have been classified as financial assets at amortized cost under IFRS 9.

d) Equity instruments represent investments that ICE holds with the intention to maintain them long term for strategic purposes. As permitted by IFRS 9, ICE has designated these investments as measured at FVOCI as of the date of initial application. Unlike IAS 39, the accumulated effect of fair value in relation to those investments will never be classified to profit or loss.

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The new impairment model applies to financial assets measured at amortized cost and those at fair value through other comprehensive income. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

ECLs are updated at each reporting date to reflect changes in credit risk since the initial recognition of the corresponding financial instrument.

For assets within the scope of the impairment model of IFRS 9, impairment losses are generally expected to increase and become more volatile. ICE has determined that the application of the impairment requirements of IFRS 9 as of December 31, 2018 resulted in an additional provision.

In the transition to IFRS 9, an allowance for impairment was recognized in the amount of ¢18,552, of which ¢4,276 was charged to initial development reserves as of December 31, 2018 (see Note 30) and ¢14,276 as an impairment expense for the year ended December 31, 2019.

Note 7. <u>Summary of significant accounting policies</u>

The accounting policies set out below have been consistently applied to the periods presented in these consolidated financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on following pages:

(Continued)

(Continued)

(a) Consolidation policies

(i) Business combinations

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 acquire; and
d. recognizing and measuring goodwill or gain from a bargain purchase.

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

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

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.

(Continued)

(In millions of colones)

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:

		Ownership interest	
		As of December 31,	
Subsidiaries	**Country**	**2019**	**2018**
Compañía Nacional de Fuerza y Luz S.A. (CNFL)	Costa Rica	98.6%	98.6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100.0%	100.0%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100.0%	100.0%
Gestión de Cobro Grupo ICE, S.A.	Costa Rica	100.0%	100.0%

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.

(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 year. Distributions received from the investee reduce the carrying amount of the investment.

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

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

(b) 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.

(Continued)

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.

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.

(Continued)

The effect of a change in estimates will be recognized in profit or loss for the year 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).

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: at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

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.

(ii) *Non-derivative financial assets and financial liabilities – Measurement: Policy applicable as of January 1, 2018:*

Non-derivative financial assets are measured as follows:

Financial assets at amortized cost	These financial assets are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method, less impairment due to ECLs.
Financial assets at fair value through other comprehensive income (FVOCI)	These assets are initially measured at fair value plus directly attributable transactions costs. Subsequent to initial recognition, they are recognized in other comprehensive income and accumulated in equity. On derecognition, gains or losses accumulated in equity are reclassified to profit or loss. The allowance for loan losses is recognized in other comprehensive income and is charged to profit or loss for the year.

Financial assets at fair value through profit or loss (FVTPL)	A financial asset is classified at fair value through profit or loss if it is not classified in any of the previous categories. Directly attributable transaction costs are recognized in profit or loss as incurred. They are subsequently measured at fair value and any changes therein, including dividend income, are recognized in profit or loss.

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

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

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

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

Financial assets – Business model assessment: Policy applicable as of January 1, 2018

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

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

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

Financial assets that are held for trading (if any) or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

Financial assets - *Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable as of January 1, 2018*

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

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

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

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

(i) *Non-derivative financial assets and financial liabilities - measurement: Policy applicable before January 1, 2018:*

ICE classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at fair value through profit or loss, and within this category:
  - held for trading;
  - derivative hedging instruments; o
  - designated at fair value through profit or loss.

Financial assets – subsequent measurement and gains and losses: Policy applicable before January 1, 2018

Financial assets at fair value through profit or loss	These assets were measured at fair value and changes therein, including any interest or dividend income, were recognized in profit or loss.
Financial assets held to maturity	These assets were measured at amortized cost using the effective interest method.

Loans and receivables	These assets were measured at amortized cost using the effective interest method.
Available for sale financial assets	These assets were measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, were recognized in other comprehensive income and were accumulated in the fair value reserve. On derecognition, gains or losses accumulated in equity were reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

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

Impairment

Policy applicable from January 1, 2018

Non-derivative financial assets:

Financial instruments and contract assets

Grupo ICE recognizes the impairment of financial assets (trade and other receivables, notes receivable and securities) through:

- financial assets measured at amortized cost,
- investments in financial instruments measured at fair value through profit or loss, and
- contract assets.

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

- debt instruments for which a low credit risk has been determined as of the reporting date; and

- other debt instruments and bank balances for which the credit risk (i.e. risk of default during the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

- the borrower is unlikely to pay its credit obligations to Grupo ICE in full, without recourse by Grupo ICE to actions such as realizing security (if any is held); or

- the financial asset is more than 90 days past due.

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or being more than 30 days past due;
- the restructuring of a loan or advance by ICE on terms that it would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of the allowance for loan losses in the statement of financial position

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

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

Write-off

The gross carrying amount of a financial asset is written off when ICE has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, ICE has the policy of writing off the gross carrying amount when the financial asset is declared uncollectible, according to Grupo ICE's bad debt policy and based on historical experience of recoveries of similar assets.

(Continued)

Grupo ICE expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with ICE's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

Non-derivative financial assets

Grupo ICE recognized losses on financial instruments by creating an allowance for doubtful accounts. For trade receivables, the amount was determined on a monthly basis by applying factors or percentages to the net monthly billing of receivables for telecom and electricity services rendered.

For non-trade receivables, a fixed amount to cover the potential uncollectibility was booked as "allowance for doubtful accounts".

The allowance for doubtful accounts for both trade and non-trade receivables was reviewed periodically to ensure coverage of potentially uncollectible accounts.

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 year.

- Changes in the fair value of the hedged item that are attributable to the hedged risk are booked as an adjustment to the carrying amount of the hedged item and recognized in profit or loss for the year. This will apply even if the hedged item is measured at cost.

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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 year.

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 equipment

Operating assets and other operating assets

Recognition 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”.

Operating assets are recorded 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. Assets acquired prior to December 31, 2016 are booked at adjusted cost, which substitutes historical cost plus revaluation adjustment, which had been applied until then based on the price index.

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

Operating assets transferred to ICE as a result of the execution of purchase orders of operating leases, end of operating leases, trusts or BOT, effective as of December 31, 2019, are recorded according to the financial value at the date that those assets are received and their expected useful life.

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

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to Grupo ICE. Additions, improvements, retrofits, reconstruction, and price adjustments are considered costs subsequent to the acquisition or construction of an asset; therefore, these are capitalizable, provided that they are not classified as maintenance costs.

Operating assets under finance lease agreements

Recognition 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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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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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.

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.

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 year.

(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".

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.

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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
- 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 in profit or loss as incurred.

(Continued)

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 with an indefinite useful life, i.e. when a defined term in which the asset generates benefits to Grupo ICE is not distinguishable, are not amortized.

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

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

(iii) *Impairment of non-financial assets*

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

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

Grupo 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. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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.

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."

Subsidiaries

Subsidiaries are entities controlled by ICE. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Loss of control

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

Other equity investments

For investments in entities acquired to obtain ownership interest, other than those which due to their control are classified as subsidiaries, associates, or joint ventures, Grupo ICE has made an irrevocable decision at the time of initial recognition to present subsequent changes in fair value in other comprehensive income.

For those investments for which fair value cannot be obtained because there are no observable market prices or other information that would permit creating a price model, Grupo ICE has adopted the practical expedient of keeping them booked at amortized cost.

(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."

(Continued)

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 classified as “Non-current investments in financial instruments”.

Non-current financial investments are initially measured at fair value. Subsequently, they are measured at fair value or amortized cost, depending on the business model under which they have been classified (see Note 7.b.ii)

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

Deferred tax assets are recognized for deducible 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) <u>Current asset policies</u>

(i) <u>*Operating inventory*</u>

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.

Inventory, equipment, or spare parts transferred to Grupo 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 year. 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.

(ii) *Notes and other accounts receivable*

Notes receivable

Loans granted to third parties with a term of one year or less are booked as “Notes receivable” and are initially measured at fair value, which is the amount due from the debtor to Grupo ICE at maturity and under the agreed terms. Subsequently, they are measured at amortized cost (see Note 7.c.ii)

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.”

These accounts receivable are initially measured at fair value, which is the amount due from the debtor to ICE at maturity and under the agreed terms. Subsequently, they are measured at amortized cost (see Note 7.c.ii).

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 loan losses due to non-payment.

Advance payments to creditors

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

(iii) *Temporary investments*

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

Temporary investments are initially recognized at fair value. Subsequently, they are measured at fair value or amortized cost, depending on the business model under which they have been classified (see Note 7.c.ii)

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

Valuation of investments

The valuation of investments designated on initial recognition at fair value through other comprehensive income or at fair value through profit or loss is made through a price vector, using as reference the vector provided by Valuación Operativa y Referencias de Mercado (VALMER) [Operative Valuation and Market References]. 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 “Gain (loss) on valuation of financial instruments”.

When the investment in securities at fair value through other comprehensive income or at fair value through profit or loss is settled or derecognized, the accumulated gain or loss previously recognized in equity is reflected in profit or loss for the year.

(Continued)

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 gains or losses on the valuation of temporary investments at fair value through profit or loss, expressed in foreign currency, are recognized in profit or loss for the year.

The effect of exchange rate variations on investments measured at amortized cost and at fair value through other comprehensive income (based on their business model) are recognized in profit or loss as incurred.

Valuations are not booked if investments expire, are traded, or are reclassified from financial assets at fair value through other comprehensive income to financial assets at amortized cost.

(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 measured at face value and are eliminated when they are returned to the guarantors.

(v) *Trade receivables*

Receivables for services rendered

The right to demand payment from customers for electricity and telecom services are booked as “Receivables for services rendered” and are measured at amortized cost less any impairment losses (see Note 7.c.ii).

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

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 impairment losses due to non-payment.

(vi) <u>*Prepaid expenses*</u>

"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.
- 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) <u>*Cash and cash equivalents*</u>

"Cash and cash equivalents" include:

- <u>Banks</u>: 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."

(Continued)

- Cash equivalents: An investment is considered to be a cash equivalent if it is readily convertible into a specific cash amount and is subject to an insignificant risk of changes in its value; its maturity is three months or less from the acquisition date, provided there is no legal or constructive obligation to use those resources.

(f) Equity policies

(i) Other reserves

Legal reserve

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

Project development reserve

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

Equity reserve

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

(ii) Actuarial gains (losses)

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

(iii) Valuation of financial instruments

This account reflects the results of the valuations of financial instruments acquired by Grupo ICE, including cash flow hedges, investments measured at fair value through other comprehensive income and investments measured at fair value through profit or loss (see Note 7.c.ii).

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

For hedges, the value of positive or negative discounted cash flows of the financial instrument determined as effective hedges 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.

(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 are liquidated by transferring them 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 amortized cost based on the contracted debt.

The amortized cost of financial assets and liabilities includes premiums or discounts and transaction costs, which are realized in the consolidated statement of 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.

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

The amortized cost of financial assets and liabilities includes premiums or discounts and transaction costs, which are realized in the consolidated statement of income and expenses using the effective interest method during 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 Grupo ICE does not comply with a covenant and it has not received a waiver before the closing date of the financial statements, and the waiver is not for at least the following 12 months, the total balance of the corresponding debt must be classified as short-term.

b) If Grupo ICE obtains a waiver on that noncompliance on a date subsequent to the closing date of the financial statements, it must be disclosed as it is considered significant for the financial statements as a whole. However, this subsequent event does not exempt 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. These loans payable are measured at amortized cost.

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

(Continued)

(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.

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.

(Continued)

<u>*Provision for employee benefits*</u>

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.

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). A pronouncement from Grupo ICE established that once the law entered into effect on December 4, 2018, employees with at least 12 years of service would have the right to receive up to a maximum of 12-year severance benefits. All other employees would have the right to receive up to a maximum of 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.

(Continued)

(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, which is equivalent to amortized cost.

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)

Legal provisions

a. Litigation

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

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.

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 liabilities

Security deposits

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

Security deposits are recognized at face value.

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

(h) Current liability policies

(i) Securities payable

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

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

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

(ii) *Loans payable*

Obligations with entities, financial institutions, suppliers, or lessors for one year or less, as well as the current portion or the portion maturing in the short term of non-current financial debt, are booked under “Loans payable”. “Current loans payable” are measured at the amortized cost 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 purchase orders and service orders: when the good is accepted and the advance payment is made or the service is accepted by the administrator of the agreement.

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

(Continued)

"Current accounts payable" are valued at the total amount payable under contractual obligations, which is equivalent to the amortized cost.

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.

(Continued)

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.

(viii) *Other liabilities*

Valuation 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.

(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 goods, electricity and telecom services, and other income, both locally and abroad, are recorded as “Operating income”.

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

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

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

Grupo ICE transfers control of the service over time; therefore, it satisfies the performance obligation and recognizes revenue over time.

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

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

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

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

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

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

(Continued)

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

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

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

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

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.

(d) 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.

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 recognized 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.

(Continued)

(l) Operating expense policies

(i) Administrative

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

"Administrative expenses" are booked at historical cost.

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

(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.
- 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.

[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.

(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."

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 (see Note 7 (d) (iv)).

(In millions of colones)

Note 8. <u>Property, plant and equipment, net</u>

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

		As of December 31,	
		2019	2018
Cost:			
Operating assets	¢	7,651,522	7,255,880
Operating assets and other operating assets under finance leases		848,892	844,643
Other operating assets		398,438	400,660
Total operating assets - cost		8,898,852	8,501,183
Accumulated depreciation:			
Operating assets		3,909,136	3,670,107
Operating assets and other operating assets under finance leases		49,460	35,577
Other operating assets		308,724	302,040
Total accumulated depreciation of operating assets – cost		4,267,320	4,007,724
Operating assets, net		4,631,532	4,493,459
Other assets:			
Construction work in progress		195,058	395,259
Inventory for investment projects		122,718	134,627
Total other assets		317,776	529,886
	¢	4,949,308	5,023,345

(Continued)

(In millions of colones)

(i) <u>*Cost*</u>

The general categories of operating assets are as follows:

	As of December 31, 2017	Additions and capitalizations	Disposals	Adjustments, reclassifications and transfers	As of December 31, 2018	Additions and capitalizations	Disposals	Adjustments, reclassifications and transfers	As of December 31, 2019
Land	¢ 162,323	43,895	(180)	(34,056)	171,982	2,010	-	14,902	188,894
Buildings	367,668	19,765	(1,204)	(6,693)	379,536	6,417	(153)	3,724	389,524
Hydroelectric power generation	2,378,350	71,565	(1,271)	(80,428)	2,368,216	7,162	(7,301)	(12,040)	2,356,037
Thermal power generation	168,797	87	(21,809)	-	147,075	18	-	(884)	146,209
Geothermal power generation (3)	518,567	-	(6,039)	-	512,528	193,760	(889)	7,181	712,580
Wind power generation	11,785	-	-	-	11,785	-	(369)	(501)	10,915
Solar power generation	12,369	363	-	-	12,732	166	-	-	12,898
Substations (2)	451,808	17,045	(6,628)	(25,412)	436,813	24,955	(413)	(1,992)	459,363
Transmission lines (2)	348,653	14,391	(10,995)	(6,752)	345,297	19,445	-	(3,699)	361,043
Distribution circuits	832,441	272,041	(7,225)	(167,884)	929,373	33,601	(6,506)	(316)	956,152
Public lighting	45,602	2,560	(1,229)	(19,285)	27,648	3,146	(871)	2	29,925
Control, communication and infrastructure equipment	279,392	4,197	(1,534)	130	282,185	6,926	(1,395)	(730)	286,986
Transport	716,877	2,282	(1,954)	-	717,205	27,290	(990)	(961)	742,544
Access (1)	485,384	2,421	(18,539)	-	469,266	69,074	(4,066)	670	534,944
Civil and electromechanical	202,954	449	-	-	203,403	5,632	(39)	(5,331)	203,665
Platforms	237,008	3,711	(222)	339	240,836	20,027	(1,059)	39	259,843
Subtotal operating assets	7,219,978	454,772	(78,829)	(340,041)	7,255,880	419,629	(24,051)	64	7,651,522
<u>*Operating assets and other operating assets under finance leases:*</u>									
Land	7,604	78	-	(192)	7,490	7	-	1	7,498
Buildings	29,940	-	-	-	29,940	697	-	-	30,637
Hydroelectric power generation	796,297	497	-	-	796,794	56	(12)	-	796,838
Transport	-	-	(11)	-	(11)	752	-	11	752
Access	8,095	-	-	-	8,095	3,462	-	(649)	10,908
Plataforms	-	-	-	-	-	124	-	-	124
Furniture and equipment	2,335	-	-	-	2,335	(172)	(17)	(11)	2,135
Subtotal operating assets and assets under finance leases	844,271	575	(11)	(192)	844,643	4,926	(29)	(648)	848,892
Other operating assets	404,622	8,502	(12,125)	(339)	400,660	9,722	(12,323)	379	398,438
	¢ 8,468,871	463,849	(90,965)	(340,572)	8,501,183	434,277	(36,403)	(205)	8,898,852

(1) The “additions and capitalizations” column for 2019 includes the recording of assets of Cable Visión de Costa Rica S.A. as a result of the assignment of rights and obligations to ICE in the amount of ¢3,317.

(2) The “additions and capitalizations” column for 2019 includes the recording of the capitalization in December 2019 of the Liberia – Papagayo – Nuevo Colón Project (¢11,658 corresponding to Substations and ¢11,705 corresponding to transmission line).

(3) The “additions and capitalizations” column for 2019 includes the capitalization of Pailas II Geothermal Power Plant for ¢193,340.

(Continúa)

Starting December 31, 2016, operating assets and other operating assets are recorded at adjusted cost, which substitutes the historical cost plus revaluation adjustment that had been applied until then based on the price index. Consequently, the value of operating assets and other operating assets that are subject to rate regulation is called adjusted cost, which consists of the historical cost plus the revaluation adjustment. Similarly, accumulated depreciation consists of the depreciation applied to historical cost plus the depreciation of the revaluation adjustment.

The "Operating assets under finance leases" account corresponds to the value of productive assets under agreements classified as finance leases. As of December 31, 2019, 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 19 (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 2033). 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.

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.

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):*

In January 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 19 (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 2019, the monthly installment ranged between ¢213 and ¢216 (2018: ¢214 and ¢218).

iii) *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 2019, the monthly lease payment ranged between ¢253 and ¢257 (2018: ¢186 and ¢254).

(In millions of colones)

(ii) *Accumulated depreciation*:

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

	As of December 31, 2017	Depreciation	Disposals	Adjustments and transfers	As of December 31, 2018	Depreciation	Disposals	Adjustments and transfers	As of December 31, 2019
Buildings	¢ 140,074	7,303	(698)	(14,675)	132,004	7,384	(110)	700	139,978
Hydroelectric power generation	1,072,816	39,279	(627)	(41,481)	1,069,987	41,692	(1,526)	69	1,110,222
Thermal power generation	91,358	3,407	(15,569)	-	79,196	3,138	-	(99)	82,235
Geothermal power generation	284,306	27,804	(3,259)	-	308,851	27,745	(557)	-	336,039
Wind power generation	10,898	45	-	-	10,943	44	(361)	(271)	10,355
Solar power generation	5,809	643	-	-	6,452	557	-	(1)	7,008
Substations	224,037	15,885	(3,122)	(11,047)	225,753	17,344	(190)	1	242,908
Transmission lines	118,008	9,373	(10,411)	(2,073)	114,897	10,846	-	(1)	125,742
Distribution circuits	435,929	34,019	(3,287)	(120,419)	346,242	29,502	(3,034)	1,715	374,425
Public lighting	22,525	1,472	(380)	(9,321)	14,296	1,664	(297)	(3)	15,660
Control, communication and infrastructure equipment	104,564	6,506	(1,374)	(128)	109,568	6,574	(1,202)	(298)	114,642
Transport	472,475	28,541	(1,912)	515	499,619	26,027	(971)	(5,702)	518,973
Access	356,029	46,048	(14,658)	-	387,419	49,259	(3,909)	5,255	438,024
Civil and electromechanical	172,098	14,734	-	-	186,832	12,311	(34)	(32)	199,077
Platforms	156,747	20,899	(220)	622	178,048	16,833	(1,059)	26	193,848
Subtotal operating assets	3,667,673	255,958	(55,517)	(198,007)	3,670,107	250,920	(13,250)	1,359	3,909,136
Operating assets and other operating assets under finance leases:									
Buildings	3,387	607	-	-	3,994	650	-	1,022	5,666
Hydroelectric power generation	12,808	11,844	-	-	24,652	11,851	-	(3)	36,500
Transport	-	9	-	-	9	12	-	-	21
Access	2,712	1,762	-	-	4,474	1,622	-	(458)	5,638
Platforms	-	-	-	-	-	11	-	-	11
Furniture and equipment	2,185	263	-	-	2,448	204	(9)	(1,019)	1,624
Subtotal operating assets and other assets under finance leases	21,092	14,485	-	-	35,577	14,350	(9)	(458)	49,460
Other operating assets	294,587	19,559	(11,803)	(303)	302,040	17,883	(11,676)	477	308,724
	¢ 3,983,352	290,002	(67,320)	(198,310)	4,007,724	283,153	(24,935)	1,378	4,267,320

(In millions of colones)

For 2019 and 2018, 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)

(In millions of colones)

(iii) <u>*Other assets*</u>

As of December 31, 2019 and 2018, movement associated to 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, 2017	¢	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
Additions		221,797	-	221,797	84,863	306,660
Disposals (b)		(23,530)	(239)	(23,769)	-	(23,769)
Capitalizations (c)		(406,308)	-	(406,308)	(96,772)	(503,080)
Interest and commissions		8,079	-	8,079	-	8,079
As of December 31, 2019	¢	195,786	(728)	195,058	122,718	317,776

** 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 27 (c)).

(b) Includes the disposal of the Borinquen Geothermal Project in the amount of ¢7,073; the disposal of ¢5,315 (see Note 27 (c)) associated with "Refuerzos de Transmisión Sur Centro" (South Central Transmission Reinforcements); and the disposal of the Pailas II Geothermal Power Plant in the amount of ¢526.

(c) Includes the capitalization of the Pailas II Geothermal Power Plant in the amount of ¢193,914; capitalization of the Transmisión Anillo Sur Project in the amount of ¢20,214; acquisition of assets - senior management ¢17,610; business services installation for ¢17,272; improvements to the network for ¢15,476; capitalization of the Liberia-Papagayo-Nuevo Colón Project for ¢12,469; and other minor capitalizations applied during 2019 for ¢10,000, which are distributed in among 60 additional projects.

As of December 31, 2019, the cost of loans capitalized by Grupo ICE amounted to ¢8,079 (2018: ¢4,520) and the capitalization rate used to determine the cost of capitalizable loans is 4.28% (2018: 2.40%).

(Continued)

The nature and main transactions of construction work in progress as of December 31, 2019 and 2018 are described below:

(a) *Borinquen Geothermal Project*

This project includes costs in the amount of ¢34,525 (2018: ¢35,088) 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.

(b) *Extension of the LTE network*

As of December 31, 2019, the balance of ¢12,621 (2018: ¢10,606) 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.

(c) *Chorotega – Pacífico Central (FONATEL)*

The balance at year-end is ¢10,374 (2018: ¢5,471). This project seeks to implement a network solution to be able to provide data and fixed voice services through fixed wireless access to a group of towns and centers for rendering of public services such as schools, high schools, health centers, CENCINAI, etc. This will cover 16 cantons and 66 districts in total, to address the offer to the seven bids that have been grouped as "Chorotega and Pacífico Central Regions".

(d) *Network improvements*

The balance at year-end is ¢9,491 (2018: ¢12,400). This corresponds to the execution of a permanent project that has repercussions on the whole telecom system. It helps to ensure improvements, adequate functioning and access to all systems and networks of the telecom system, with the general goal of providing continuous communication services. This would allow maintaining the services within the parameters established by the regulating entity and guaranteeing the continuity and quality of the network services.

(Continued)

(In millions of colones)

(e) *Installation of residential services*

This project was opened to book all costs incurred by technical personnel in the installation of new residential services in the entire country. The balance at year-end is ¢9,106 (2018: ¢93). The main goal of these solutions is to satisfy the needs of residential customers, who demand the latest generation services.

(iv) *Temporarily inactive property, plant and equipment*

As of December 31, 2019, there are 12,223 depreciable assets, of which 3,021 assets with a carrying amount ¢19,523 have not reported use during 2018-2019.

Note 9. Intangible assets, net

Intangible assets are as follows:

		As of December 31,	
		2019	2018
Intangible assets with a definite useful life:			
Licenses, systems and applications (1)	¢	178,813	135,360
Submarine cable rights (2)		70,451	66,392
		249,264	201,752
Accumulated amortization:			
Licenses, systems and applications		(130,735)	(103,035)
Submarine cable rights (2)		(44,457)	(39,655)
Accumulated amortization		(175,192)	(142,690)
Intangible assets with a definite useful life		74,072	59,062
Intangible assets with an indefinite useful life:			
Rights of way and easements (3)		34,283	29,809
Other intangible assets		2,813	2,813
		37,096	32,622
	¢	111,168	91,684

(In millions of colones)

Movement in intangible assets is as follows:

		Licenses, systems and applications As of December 31,		Submarine cable rights As of December 31,		Rights of way and easements As of December 31,		Other As of December 31,		Total As of December 31,	
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Cost:											
Opening balance	¢	135,360	113,216	66,392	66,392	29,809	29,266	2,813	2,813	234,374	211,687
Additions and capitalizations		37,267	27,142	4,059	-	4,474	531	-	-	45,800	27,673
Transfers		14,360	(410)	-	-	-	12	-	-	14,360	(398)
Disposals		(8,174)	(4,588)	-	-	-	-	-	-	(8,174)	(4,588)
		178,813	135,360	70,451	66,392	34,283	29,809	2,813	2,813	286,360	234,374
Accumulated amortization:											
Opening balance		103,035	84,520	39,655	35,089	-	-	-	-	142,690	119,609
Amortization - expense		20,899	19,128	4,802	4,566	-	-	-	-	25,701	23,694
Amortization - investment		608	4,141	-	-	-	-	-	-	608	4,141
Transfers		14,360	(398)	-	-	-	-	-	-	14,360	(398)
Disposals		(8,167)	(4,356)	-	-	-	-	-	-	(8,167)	(4,356)
		130,735	103,035	44,457	39,655	-	-	-	-	175,192	142,690
	¢	48,078	32,325	25,994	26,737	34,283	29,809	2,813	2,813	111,168	91,684

(Continued)

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 following "operating costs and 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 and preliminary studies.

As of December 31, 2019, the balance of the Administrative Financial Modernization Program (PMAF), which as of that date has the main operating modules of the ERP integrated solution, which represent 78% of the modules acquired for the full solution (2018: 60%), a partial capitalization was performed in the amount of ¢12,717. During 2019 partial capitalizations have been performed in the amount of ¢20,408 (2018: ¢12,717). This software is amortized over a 10-year term, ending in 2029.

(2) Submarine cable rights

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.

(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.

(Continued)

(In millions of colones)

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,	
		2019	2018 *(Restated)* *
Joint venture:			
Tecomunica, S.A. - Nicaragua; 500 ordinary shares with a par value of C$101,000; 50% ownership interest (1)	¢	1,014	1,150
Other investments at cost:			
Consorcio Cable Maya (2)		18,344	15,085
Toro III Hydroelectric Project Trust III (3)		11,203	11,203
Red Centroamericana de Telecomunicaciones S.A. 280 ordinary shares with a par value of US$1,000: 10.36% ownership (4)		153	143
Other		53	63
		29,753	26,494
Equity investments measured at fair value:			
Empresa Propietaria de la Red, S.A.; 6.061 shares with a par value of US$1,000; 10.36% ownership interest (5)		3,466	3,124
Valuation of equity investments (EPR) (5)		2,284	1,774
		5,750	4,898
	¢	36,517	32,542

(*) See Note 30.

(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:

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

		As of December 31,	
		2019	2018
Percentage ownership interest		50%	50%
Non-current assets:	¢	1,308	1,759
Current assets:		1,343	1,087
Non-current liabilities		(48)	(47)
Current liabilities		(575)	(500)
Net assets (100%)		2,028	2,299
Group's share of net assets (50%)		1,014	1,150
Carrying amount of interest in joint venture	¢	1,014	1,150

		As of December 31,	
		2019	2018
Revenue	¢	1,530	1,410
Other income		9	55
Cost of sales		523	613
Operating expenses		973	796
Interest expense		(1)	(3)
Income tax expense		-	(4)
Profit or loss and total comprehensive income (100%)		42	115
Profit or loss and total comprehensive income (50%)		21	57
Group's share of total comprehensive income	¢	21	57

(2) Consorcio Cable Maya

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

The agreement for construction and maintenance of the Maya 1 submarine cable was signed in 1998, for a term of 25 years from the beginning of operations (first quarter of 2000). This is an agreement between 37 companies to build the aforementioned submarine cable in the Caribbean. 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.

(Continued)

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.

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) Red Centroamericana de Telecomunicaciones, S.A.

In 2013, Grupo ICE acquired ownership interest in Red Centroamericana de Telecomunicaciones, S.A. (REDCA), which is dedicated to developing, financing, constructing, operating, maintaining and commercially exploiting telecom services or services related to IT and communications. REDCA's share capital is composed of 2,700 shares with a par value of US$1,000. 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

(5) 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 ¢3,465, (11.11% ownership interest) of Grupo ICE valued at cost of purchase.

As of December 31, 2019, and as a result of the adoption of IFRS 9, the fair value of the investment in EPR was determined. This resulted in an increase in the value of the investment of ¢2,284 (2018: ¢1,774), (see Note 30).

(In millions of colones)

Note 11. <u>Notes and other accounts receivable, net</u>

Notes and other accounts receivable are as follows:

		As of December 31,					
		2019			2018		
		Non-current	Current	Total	Non-current	Current	Total
Notes receivable:							
Loan to autonomous entities (1)	¢	1,883	140	2,023	2,009	140	2,149
Payment arrangements		587	2,917	3,504	985	2,082	3,067
Allowance for loan losses – Notes receivable (Businesses) (2)		(312)	(1,520)	(1,832)	-	(1,396)	(1,396)
		2,158	1,537	3,695	2,994	826	3,818
Non-trade receivables:							
Other non-trade receivables (3)		-	10,190	10,190	-	20,186	20,186
Government (4)		-	10,132	10,132	-	18,281	18,281
Interest accrued on investments		-	1,198	1,198	-	2,534	2,534
Other		-	1,398	1,398	-	2,707	2,709
		-	22,918	22,918	-	43,708	43,708
Other accounts receivable		-	(991)	(991)	-	14,128	14,128
Allowance for loan losses – Non-trade receivables (5)		-	(2,030)	(2,030)	-	(1,893)	(1,893)
		-	19,897	19,897	-	55,943	55,943
Tax credits and withholdings		-	12,574	12,574	-	7,370	7,370
Advances to creditors:							
Other receivables – advance payments (6)		-	29,532	29,532	-	26,015	26,015
Government		-	2,790	2,790	-	3,529	3,529
Employees		-	256	256	-	233	233
		-	32,578	32,578	-	29,777	29,777
	¢	2,158	66,586	68,744	2,994	93,916	96,910

(Continued)

(In millions of colones)

(1) Loans to autonomous entities

Corresponds mainly to a loan agreement subscribed by ICE and EPR to repay IDB loan No. 1908 for US$4.5, equivalent to ¢2,023 (2018: US$4.5, equivalent to ¢2,149). Of this amount, the non-current portion is ¢1,883 and the current portion ¢140 (2018: non-current ¢2,009 and current ¢140). The total term of the loan is 25 years starting November 24, 2010, with a five-year grace period, payable half-yearly, bearing an annual variable interest rate equivalent to 3-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.52% (2018: 6-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.47%), unsecured.

(2) Allowance for loan losses – Notes receivable (Businesses)

Movement in the allowance for loan losses related to notes receivable is as follows:

		December 31,	
		2019	2018 *(Restated)**
Opening balance	¢	1,396	1,396
Allowance expense		124	-
Closing balance	¢	1,520	1,396

(*) See Note 30.

(3) Other non-trade receivables

As of December 31, 2019, this account includes balances receivable for services that do not have regulated rates in the amount of ¢10,190 (2018: ¢20,186). These include sales of goods and business services, engineering services, among others.

(4) Government

As of December 31, 2019, the balance amounting to ¢10,132 (2018: ¢18,281) is mainly due to services rendered for Gobierno Digital invoices, Guarantee and Savings Fund expenses, leases and sale of goods and services.

(In millions of colones)

(5) Allowance for loan losses – Non-trade receivables

As of December 31, 2019, movement in the allowance for loan losses - non-trade receivables is as follows:

		December 31,	
		2019	2018
Opening balance	¢	1,893	1,347
Used during the year		(123)	-
Allowance expense		260	546
Closing balance	¢	2,030	1,893

(6) Other receivables – advance payments

As of December 31, 2019, the balance of ¢29,532 (2018: ¢26,015) includes an amount of ¢20,103 (2018: ¢21,114) 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.

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 ¢20,103, (2018: ¢21,114).

Note 12. Investments in financial instruments

Financial instruments are as follows:

		As of December 31,	
		2019	2018 *(Restated)* *
Investments at amortized cost	¢	-	60,148
Investments at fair value through other comprehensive income:			
Investments at fair value through other comprehensive income		72,064	65,035
Fair value through other comprehensive income		1,805	(2,654)
		73,869	62,381
	¢	73,869	122,529

(*) See Note 30.

(In millions of colones)

As of December 31, 2019, Grupo ICE recognized gains arising from the valuation of investments at fair value through other comprehensive income in the amount of ¢1,805 (2018: net loss on valuation of ¢2,654), (see Note 30).

					As of December 31,	
Issuer	Product name	Currency		Balance	Interest rate	Maturity date
Government	Variable rate	Colones	¢	10,002	6.82%	03/24/2021
Central Bank of Costa Rica	Fixed rate	Colones		5,974	8.63%	04/28/2021
Banco Popular y Desarrollo Comunal	Variable rate	Colones		5,007	6.75% to 6.80%	03/16/2021 to 03/23/2021
Banco Nacional de Costa Rica	Fixed rate	Colones		1,996	9.15%	01/29/2021
Florida ICE & Farm Company S.A.	Fixed rate	Colones		400	8.85%	07/03/2023
				23,379		
Government	Fixed rate	US dollars		47,823	5.52%	05/25/2021 to 08/17/2022
Refinadora Costarricense de Petróleo (RECOPE)	Fixed rate	US dollars		862	5.50% to 5.85%	12/05/2022 to 03/03/2028
				48,685		
Gain on measurement at fair value through other comprehensive income (FVOCI)				1,805		
			¢	73,869		

(In millions of colones)

					As of December 31,	
Issuer	Product name	Currency		Balance	Interest rate	Maturity date
Banco Popular y de Desarrollo Comunal	Fixed rate	Colones	¢	16,094	7.00%-9.50%	03/19/2020 to 06/24/2020
Government	Variable rate	Colones		10,002	6.82%	03/24/2021
Government	Fixed rate	Colones		8,739	7.13%-10.35%	03/25/2020 to 30/09/2025
Banco Popular y de Desarrollo Comunal	Variable rate	Colones		5,013	6.75%-6.80%	16/03/2020 to 23/03/2021
Banco Central de Costa Rica	Fixed rate	Colones		4,878	6.26%-10.95%	04/03/2020 to 11/03/2026
Banco BAC San José, S.A.	Fixed rate	Colones		2,515	6.75%-6.80%	01/13/2020 to 03/26/2020
Mutual Cartago de Ahorro y Préstamo	Fixed rate	Colones		1,500	7.50%	02/17/2020
Grupo Mutual Alajuela La Vivienda de Ahorro y Préstamo	Fixed rate	Colones		1,004	7.50%	24/03/2020
Banco Davivienda (Costa Rica) S.A.	Variable rate	Colones		1,000	5.70%	24/03/2020
Florida ICE & Farm Company S.A.	Fixed rate	Colones		400	8.85%	07/03/2023
Fideicomiso Benemérito Cuerpo de Bomberos	Fixed rate	Colones		341	9.20%	10/21/2020
				51,486		
Government	Fixed rate	US dollars		70,664	4.83%-10.00%	05/27/2020 to 08/17/2022
Banco Scotiabank de Costa Rica, S.A.	Fixed rate	US dollars		2,120	5.00%	08/21/2020
Refinadora Costarricense de Petróleo (RECOPE)	Fixed rate	US dollars		913	5.50%-5.85%	05/05/2022 to 04/03/2028
				73,697		
Loss on measurement at fair value through other comprehensive income (FVOCI) (*)				(2,654)		
			¢	122,529		

(*) See Note 30.

(In millions of colones)

Note 13. <u>Guarantee and Savings Fund</u>

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,	
		2019	2018
Contribution to the Supplemental Pension System	¢	133,412	132,874
Contribution to the Guarantee and Savings Fund		89,233	89,338
	¢	222,645	222,212

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, 2019, according to the financial statements of the Supplemental Pension System vehicle, the provision or obligation for pensions in payment process amounts to approximately ¢155,975 (2018: ¢139,831), and as of that date, net assets available for future pension benefits amount to approximately ¢194,824 (2018: ¢182,537). 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:

(In millions of colones)

	December 31,	
	2019	2018
Real discount rate	4.25%	4.25%
Nominal discount rate	7.90%	8.42%
Expected salary increase rate	1.75%	2%
Average retirement age of current employees (years)		
Men	62	62
Women	60	60
Long-term inflation rate	3.50%	4%

Note 14. <u>Inventories, net</u>

Inventories are as follows:

		As of December 31,	
		2019	2018
Operating inventory	¢	103,571	110,684
Materials and equipment held in custody		12,676	30,138
Materials in transit for operation		364	533
		116,610	141,355
Allowance for valuation of inventory		(29,923)	(28,989)
	¢	86,687	112,366

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

		December 31,	
		2019	2018
Opening balance	¢	28,989	29,974
Used during the year		(6,387)	(2,757)
Allowance expense		8,922	1,809
Net realizable value		(1,601)	(37)
Closing balance	¢	29,923	28,989

(Continued)

(In millions of colones)

Note 15. Temporary investments

Temporary investments measured at amortized cost are as follows:

		As of December 31,	
		2019	2018
Bonds with public entities	¢	22,595	19,645
Central bank bonds		26,592	17,673
Monetary stabilization bonds		2,000	9,734
Term certificates of deposit		60,970	4,746
Bonds with private entities		5,855	1,688
Certificates of deposit issued by a mutual fund		2,295	-
Costa Rican external debt bonds		12	-
	¢	120,316	53,486

(*) See Note 30.

(In millions of colones)

A detail of the characteristics of investments at amortized cost is as follows:

				As of December 31, 2019		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones	¢	22,592	6.51% - 9.75%	03/19/2020 - 11/02/2020
Financiera Desyfin	Fixed-interest borrowings	Colones		5,501	9.65% - 10.50%	02/19/2020 - 07/24/2020
Banco de Costa Rica	Fixed-interest borrowings	Colones		5,000	9.15%	25/02/2020
Government	Zero-coupon Central Bank bond	Colones		3,932	8.70%	16/03/2020
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	Colones		3,501	6.70% - 7.50%	02/17/2020 - 09/16/2020
Banco BAC San José. S.A.	Fixed-interest borrowings	Colones		2,515	6.75% - 6.80%	01/13/2020 - 03/26/2020
Government	Fixed-interest borrowings	Colones		2,005	7.59%	25/03/2020
Banco Cathay	Fixed-interest borrowings	Colones		2,000	10.50%	03/06/2020
Banco Nacional de Costa Rica	Fixed-interest borrowings	Colones		2,000	8.95%	17/03/2020
Banco Central de Costa Rica	Fixed-interest borrowings	Colones		2,000	6.26%	03/04/2020
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	Fixed-interest borrowings	Colones		1,002	7.50%	24/03/2020
Banco Davivienda (Costa Rica) S.A.	Variable interest	Colones		1,001	5.70%	24/03/2020
Banco de Costa Rica	Certificate of deposit	Colones		662	3.00% - 7.92%	07/10/2019 -11/30/2023
Fideicomiso Benemérito Cuerpo de Bomberos	Fixed-interest borrowings	Colones		341	9.20%	21/10/2020
Banco Nacional de Costa Rica	Certificate of deposit	Colones		41	6.00% - 8.25%	04/26/2019 - 11/30/2023
				54,093		
Government	Fixed-interest borrowings	US dollars		20,667	4.83% - 10.00%	05/27/2020 - 11/18/2020
Financiera Desyfin	Fixed-interest borrowings	US dollars		12,622	5.15% - 5.70%	02/26/2020-12/10/2020
Banco Promérica	Fixed-interest borrowings	US dollars		8,606	4.10% - 5.20%	03/13/2020 - 09/18/2020
Banco Improsa	Fixed-interest borrowings	US dollars		5,738	4.20%	10/09/2020
Banco Cathay	Fixed-interest borrowings	US dollars		5,451	4.25% - 5.50%	02/24/2020 - 08/25/2020
Banco PRIVAL.S.A. (formerly BANSOL Banco de Soluciones)	Fixed-interest borrowings	US dollars		4,589	3.45% - 5.5%	02/20/2020 - 08/07/2020
Banco Nacional de Costa Rica	Certificate of deposit	US dollars		2,986	1.30% - 4.85%	04/30/20 - 08/09/21
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	US dollars		2,295	3.10%	11/06/2020
Banco Scotiabank de Costa Rica. S.A.	Fixed-interest borrowings	US dollars		1,999	5.00%	21/08/2020
Banco Internacional de Costa Rica (BICSA)	Certificate of deposit	US dollars		1,159	3.50%	04/20/2020
Banco de Costa Rica	Certificate of deposit	US dollars		111	2.66% - 4.30%	01/01/2020 - 01/31/2025
				66,223		
			¢	120,316		

(In millions of colones)

				As of December 31, 2018		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
Banco Central de Costa Rica	Fixed-interest borrowings	Colones	¢	9,734	6.06% - 9.20%	01/09/2019 - 11/20/2019
Government	Fixed-interest borrowings	Colones		7,815	6.21% - 9.20%	03/27/2019 - 09/25/2019
Banco Nacional de Costa Rica	Fixed-interest borrowings	Colones		7,292	6.63%	01/23/2019 - 02/06/2020
Government	Zero-coupon Central Bank bond	Colones		9,858	7.15%	15/03/2019
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	Fixed-interest borrowings	Colones		3,506	7.00% - 7.10%	03/08/2019 - 06/18/2019
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	Colones		2,401	7.00%	11/08/2019
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones		2,001	7.10%	12/03/2019
Banco de Costa Rica	Fixed-interest borrowings	Colones		1,000	6.65%	22/03/2019
Banco Promérica	Fixed-interest borrowings	Colones		600	6.80%	10/04/2019
La Nación S.A.	Fixed-interest borrowings	Colones		500	10.00%	17/09/2019
Fideicomiso Benemérito Cuerpo de Bombero	Fixed-interest borrowings	Colones		347	8.70%	21/10/2019
				45,054		
Banco Nacional de Costa Rica	Certificate of deposit	US dollars		2,600	1.30% - 4.85%	04/01/2019 - 07/24/2019
Banco Nacional de Costa Rica	Fixed-interest borrowings	US dollars		2,601	4.45%	23/01/2019
Banco Internacional de Costa Rica (BICSA)	Certificate of deposit	US dollars		1,895	3.50% - 4.25%	06/17/2019 - 07/24/2019
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	US dollars		845	5.25%	19/09/2019
Banco de Costa Rica (BCR)	Certificate of deposit	US dollars		251	2.60% - 4.30%	05/05/2019 - 01/31/2025
Banco BAC San José. S.A.	Fixed-interest borrowings	US dollars		240	4.85%	08/09/2019
				8,432		
			¢	53,486		

(In millions of colones)

Note 16. Trade receivables, net

Trade receivables are as follows:

		As of December 31,	
		2019	2018 *(Restated)* *
Borrowers in general	¢	150,387	133,504
Government		31,857	28,704
Private banks		196	70
Other		358	392
		182,798	162,670
Allowance for losses on impairment of trade receivables		(34,365)	(42,152)
	¢	148,433	120,518

(*) See note 30.

Note 17. Prepaid expenses

Prepaid expenses are as follows:

		As of December 31,	
		2019	2018
Mobile terminals and devices	¢	22,885	34,619
Finance costs (1)		16,694	15,497
Other		282	655
	¢	39,861	50,771

(1) Finance costs

As of December 31, 2019, Grupo ICE shows an amount of ¢16,694 (2018: ¢15,497), which corresponds to the obligation derived from the recording of the finance lease subscribed by Grupo ICE and Reventazón Hydroelectric Project Trust (see Notes 8 and 19(c)).

Note 18. Cash and cash equivalents

Cash and cash equivalents are as follows:

		For the period ended in	
		2019	2018
Cash on hand and in banks	¢	177,994	108,394
Cash equivalents		25,418	30,261
	¢	203,412	138,655

(Continued)

(In millions of colones)

Cash equivalents are as follows:

				As of December 31, 2019			
Classification	Currency	Issuer	Type of financial instrument		Balance	Interest rate	Maturity
Investments at fair value through profit or loss	Colones	Popular SAFI	Investment fund	¢	3,895	3.37% - 4.77%	Demand
Investments at fair value through profit or loss	US dollars	Popular SAFI	Investment fund		2,260	1.94% - 4.62%	Demand
Investments at fair value through profit or loss	US dollars	Government	Investment fund		143	2.00%	Demand
Amortized cost	Colones	BN FONDOS	Investment fund		206	1.98%	Demand
Amortized cost	US dollars	Banco Internacional de C.R. - Miami	Overnight deposit		13,267	1.00%	-
Amortized cost	US dollars	Banco Internacional de C.R. - Miami	Certificate of deposit		4,512	1.00%	21/Nov/2019 – 06/Jan/2019
Amortized cost	US dollars	Government	Repurchase operations		1,061	3.64%	13/Jan/2020
Amortized cost	US dollars	Banco de Costa Rica (BCR)	Certificate of deposit		74	1.75% - 4.30%	02/Aug/2017 – 31/Jan/2025
				¢	25,418		

(Continued)

(In millions of colones)

Classification	Currency	Issuer	Type of financial instrument		As of December 31, 2018 Balance	Interest rate	Maturity
Amortized cost	Colones	Government	Zero-coupon bonds	¢	5,000	6.00%	30/Nov/2018 – 10/Jan/2019
Amortized cost	US dollars	BICSA	Overnight deposits		12,563	0.40%	-
Amortized cost	US dollars	Banco Internacional de C.R. - Miami	Certificate of deposit		2,508	1.50% - 3.50%	18/Jul/2018-07/Feb/2019
Investments at fair value through profit or loss	Colones	Popular SAFI	Investment fund		6,626	3.55% - 4.79%	Demand
Investments at fair value through profit or loss	US dollars	BN FONDOS	Investment fund		778	1.98%	Demand
Investments at fair value through profit or loss	US dollars	Popular SAFI	Investment fund		632	1.79% - 1.98%	Demand
Fair value through other comprehensive income	US dollars	F.I. ND INS LIQUIDITY	Investment fund		2	2.25%	Demand
Fair value through other comprehensive income	US dollars	F.I. ND BCR MIXED	Investment fund		2,152	2.40%	Demand
				¢	30,260		

(Continued)

(In millions of colones)

Note 19. Financial debt

a. Debt securities payable

Debt securities issued by Grupo ICE are as follows:

					As of December 31,					
					2019			2018		
	Currency	Annual interest rate	Year of maturity		Non-current	Current	Total	Non-current	Current	Total
Internal debt:										
Bonds issue	¢	Variable between 7.45% and 9.98% and fixed at 11.41% (2018: variable between 7.70% and 9.43% and fixed at 11.41%)	2020-2035	¢	262,371	19,988	282,359	282,484	-	282,484
Bonds issue	US$	Fixed between 5.97% and 7.65% in 2019 and 2018	2020-2027		258,439	43,038	301,477	321,463	19,482	340,945
External debt:										
Bonds issue	US$	Fixed between 6.38% and 6.95% in 2019 and 2018	2021-2043		569,308	-	569,308	607,818	-	607,818
				¢	1,090,118	63,026	1,153,144	1,211,765	19,482	1,231,247

Securities payable (bonds) in US dollars amount to US$1,518 (2018: US$1,557). These obligations are secured by a general ICE guarantee.

(In millions of colones)

b. ***Loans payable***

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

		As of December 31,	
		2019	2018
Internal debt:			
Colones	¢	155,873	169,297
US dollars		44,199	47,917
External debt:			
Colones		99,189	105,034
US dollars		574,248	545,768
Yen		112,650	112,177
		986,159	980,193
Non-current		899,030	887,060
Current		87,129	93,133
	¢	986,159	980,193

Note 32 includes information about Grupo ICE's exposure to interest rate, currency and liquidity risk.

Loans payable by creditor are as follows:

		As of December 31,	
		2019	2018
Internal debt:			
State-owned banks	¢	196,271	212,681
Private banks		3,801	4,533
External debt:			
Private banks		783,083	757,009
Other creditors		3,004	5,970
	¢	986,159	980,193

Loans payable in US dollars and in yen amount to US$1,079 and ¥21,249, respectively (2018: US$978 and ¥20,177, respectively).

(In millions of colones)

The total non-current portion of loans payable amounts to ¢899,030 (2018: ¢887,060), of which ¢839,775 and ¢59,255 correspond to the Electricity Segment and Telecom Segment, respectively (2018: ¢849,124 and ¢37,936, respectively). The current portion of loans payable amounts to ¢87,129 (2018: ¢93,133), of which ¢74,020 and ¢13,109 correspond to the Electricity Segment and Telecom Segment, respectively (2018: ¢77,112 and ¢16,021, respectively).

The characteristics of loans payable are as follows:

	Interest rate	Currency	Term
Internal debt	Variable between 8.15% and 9.70% (2018: variable between 8.40% and 9.70%)	¢	Maturing between January 3, 2022 and October 23, 2045
	Variable between 7.15% and 7.80%, (2018: variable between 6.25% and 8.31% and fixed between 5.95% and 8.50%)	US$	Maturing between September 5, 2033 and September 13, 2043
External debt	Variable 7.50% and 7.70% (2018: variable between 7.60% and 7.51%)	¢	Maturing between May 25, 2034 and October 14, 2037
	Variable between 2.93% and 6.92% (2018: variable between 3.42% and 7.88%) and fixed between 0.70% and 6.40% in 2019 and 2018	US$	Maturing between February 22, 2020 and February 7, 2044
	Fixed between 0.60% and 2.20% in 2019 and 2018	JPY	Maturing between April 20, 2026 and June 20, 2057

Total loans payable for ¢986,159 (2018: ¢980,193) include loans with a general ICE guarantee in the amount of ¢702,635 (2018: ¢700,281) and loans endorsed by the Government in the amount of ¢283,524 (2018: ¢279,912).

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.

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.

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, 2019, the financial covenants related to loan agreements meet the established limits.

(In millions of colones)

c. ***Finance lease obligations***

The balances of finance lease obligations are as follows:

			As of December 31,					
			2019			2018		
	Interest rate	Year of maturity	Non-current	Current	Total	Non-current	Current	Total
Trusts in colones								
La Sabana Business Center	Variable at 8.70% (2018: 8.60%)	2030	¢ 16,168	989	17,157	17,500	888	18,388
Range	Variable at 8.60% (2018: 8.40%)	2034	21,342	779	22,121	20,926	1,279	22,205
UNO P.H. Reventazón	Variable at 8.75% in 2019 and 2018	2033	206,553	7,632	214,185	214,690	7,520	222,210
Trusts in US dollars								
UNO P.H. Reventazón	Variable at 6.94% in 2019 and 2018	2033	212,614	10,501	223,115	234,941	10,502	245,443
Vehicles	Variable at 8.65% and fixed between 5.95% and 9.30% in 2019	2020-2022	79	24	103	-	-	-
Physical spaces	Fixed between 5.01% and 9.30% in 2019	2022-2034	281	160	441	-	-	-
Equipment	Fixed between 5.01% and 9.30% in 2019	2020-2033	108	25	133	-	-	-
			¢ 457,145	20,110	477,255	488,057	20,189	508,246

As of December 31, 2019, finance lease obligations in US dollars amount to US$389 (2018: US$410).

These balances are related to obligations derived from finance lease agreements subscribed by ICE and UNO P.H. Reventazón Trust, ICE-BCR Real Estate Securitization Trust, and ICE-RANGE/BCR Trust, in connection with the Reventazón Hydroelectric Power Plant, with the Telecommunications Building (La Sabana Business Center), and with the design, construction, and maintenance of the RANGE network, respectively. For UNO P.H. Reventazón Trust, the liability is related to the balance of the obligations assumed by the trust in colones and in US dollars (see Note 8 (i)).

(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, the UNO P.H. Reventazón Trust, the Bank of New York Mellon as Intercreditor Agent and the Onshore Fiduciary signed a Side Letter Agreement, which establishes, among other, a series of covenants in relation to its financial lease obligations related to the UNO P.H. Reventazón Trust.

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, 2018	¢	1,231,247	980,193	508,246	2,719,686
Changes in cash flows from financing activities					
Disbursements		-	207,934	1,263	209,197
Amortization		(20,255)	(155,273)	(11,224)	(186,752)
Total changes in cash flows from financing activities		(20,255)	52,661	(9,961)	22,445
Effect of changes in exchange rates		(57,848)	(46,604)	(21,741)	(126,193)
Lease obtained in the assignment of rights and obligations of subsidiaries		-	(91)	65	(26)
Reclassification of leases – rights of use		-	-	646	646
Balance as of December 31, 2019	¢	1,153,144	986,159	477,255	2,616,558

(In millions of colones)

		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
Changes in cash flows from financing activities					
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 changes 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

Note 20. Employee benefits – severance benefits

As of December 31, 2019, of the total severance benefits obligation, the amounts of ¢75,340, ¢2,825 and ¢1,895 are related to the permanent employee payroll, the project payroll and payroll downsizing, respectively, for a total of ¢80,060 (2018: ¢47,953 and ¢1,995 for the permanent employee payroll and project payroll, respectively, for a total of ¢49,948). Of those amounts, the current and non-current portions amount to ¢8,023 and ¢72,037, respectively (2018: ¢7,291 and ¢42,657, respectively).

Starting December 2018, the *Law to Strengthen Public Finances* (Law No. 9635) became effective. Transition provision XXVII, Chapter I and Title V of that law set forth 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, 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 *Employee Protection Law* became effective could not exceed 24 years of severance benefits, corresponding to a period of 40 years of continuous service at ICE. Starting in 2018, the cap was modified when the aforementioned Law No. 9365 became effective.

(Continued)

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

i. An employee whose employment contract is terminated with the recognition of severance benefits will have the right to the payment of such benefits based on seniority.

ii. The payment of severance benefits is a compound calculation that considers whether the employees were hired before or after the Employee Protection Law as of March 2001, pursuant to the following criteria:

   a. The time of service before the Employee Protection Law will be recognized in the proportion of one-month salary for six months to one year of service. When the time of service exceeds eight years, one-month salary will be recognized for every two years of service after the first eight years.
   b. The time of service after the Employee Protection Law will be paid with the amount for salary days included in amended Article 29 of the Labor Code and according to a scale established therein. In no event shall such severance benefits be paid beyond the last eight years of employment. This applies to personnel hired under payroll modality 08 established in ICE's Autonomous Labor Regulations (RAL). Until December 31, 2017, for the rest of the employees, severance benefits are paid up to a maximum of 24 years, corresponding to 40 years of service, in accordance with the statute. Severance benefits shall be paid even if the worker immediately starts working for another employer.

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

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

(Continued)

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.

(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,	
		2019	2018
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	42,354	97,013
Expense recognized in the statement of income and expenses for the year:			
Current service cost		150	182
Income from prior services		-	(27,008)
Net interest on the defined benefit obligation		5,909	8,772
Loss on severance benefits		67	-
Total (income) expense recognized in the statement of income and expenses and other comprehensive income		*6,126*	*(18,054)*
Recognized in other comprehensive income (OCI) – actuarial gain (i)		28,505	(13,172)
Severance benefits paid		(106)	(14,639)
Allowance for severance benefits paid by ICE		(6,256)	(8,794)
Total payments		(6,362)	(23,433)
Defined benefit obligation at year-end	¢	70,623	42,354

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.”

(In millions of colones)

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

		For the period ended	
		2019	2018
Loss on demographic assumptions	¢	(44)	(18)
Loss on financial assumptions		25,428	(15,137)
Gain on experience adjustments		3,121	1,983
	¢	28,505	(13,172)

(ii) *Actuarial assumptions*

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

	As of December 31,	
	2019	2018
Nominal discount rate	9.18%	15.09%
Expected salary increase rate	3.11%	2.73%
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.

(In millions of colones)

			As of December 31, 2019		
			Discount rate variation		
			9.55%	10.05%	10.55%
	2.60%	¢	65,419	62,874	**60,502**
Salary increase rate variation	3.10%	¢	68,486	**65,745**	63,194
	3.60%	¢	**71,772**	68,818	66,072

The minimum amount of the obligation (¢60,502) occurs if the salary increase rate is the lowest in the sensitivity range (2.60%), and the discount rate is the highest (10.55%). The maximum amount of the obligation (¢71,772) occurs in the opposite case. The calculated amount (¢65,745) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2018		
			Discount rate variation		
			14.59%	15.09%	15.59%
	2.20%	¢	42,106	40,799	**39,564**
Salary increase rate variation	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, 2019, the average retirement period is 16.7 years, and the average employee seniority was 17,5 years, with an average age of 44.8 years (2018: average retirement period of 16.5 years, average employee seniority 17 years, with an average age of 44.3 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)

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.

(In millions of colones)

CNFL

Movement 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,	
		2019	2018
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	5,258	7,596
Expense recognized in the statement of income and expenses and other comprehensive income for the year:			
Current-services cost		83	1,214
Prior-services cost		(6,685)	-
Net interest on the defined benefit obligation		628	615
(Gain) loss on severance benefits		752	-
Total (income) expense recognized in the statement of income and expenses and other comprehensive income		(5,222)	1,829
Recognized in other comprehensive income (OCI) – actuarial gain (i)		6,256	(937)
Severance benefits paid		(1,486)	(2,310)
Allowance for severance benefits paid by CNFL		(613)	(920)
Total payments		(2,099)	(3,230)
Defined benefit obligation at the end of the period	¢	4,193	5,258

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	
		2019	2018
Loss on demographic assumptions	¢	(37)	51
Loss on financial assumptions		2,711	(3,953)
Gain on experience adjustments		3,582	2,965
	¢	6,256	(937)

(In millions of colones)

(ii) *Actuarial assumptions*

The main actuarial assumptions are as follows:

	As of December 31,	
	2019	2018
Nominal discount rate	10.03%	14.93%
Expected salary increase rate	4.33%	3.17%
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, 2019		
			Discount rate variation		
			9.53%	10.03%	10.53%
	3.80%	¢	3,621	3,301	**3,024**
Salary increase rate variation	4.30%	¢	4,035	**3,667**	3,344
	4.80%	¢	**4,501**	4,084	3,713

(In millions of colones)

The minimum amount of the obligation (¢3,024) occurs if the salary increase rate is the lowest in the sensitivity range (3.80%) and the discount rate is the highest (10.53%). The maximum amount (¢4,501) occurs in the opposite case. The calculated amount (¢3,667) falls in the mid-range of this sensitivity analysis.

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

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, 2019, the average retirement period is 18.2 years, and the average employee seniority was 17.1 years, with an average age of 43.4 years (2018: average retirement period 18.3 years, average employee seniority 16.9 years, with an average age of 43.2 years).

RACSA

Movement 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,	
		2019	2018
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	341	408
Expense recognized in the statement of income and expenses and other comprehensive income for the year:			
Current service cost		-	103
Income from prior services		116	(379)
Net interest on the defined benefit obligation		36	35
Total (income) expense recognized in the statement of income and expenses and other comprehensive income		152	(241)
Recognized in other comprehensive income (OCI) – actuarial gain (i)		94	283
Benefits paid directly by RACSA		(63)	(109)
Defined benefit obligation at the end of the period	¢	524	341

(In millions of colones)

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 in	
		2019	2018
Loss on demographic assumptions	¢	(164)	27
Loss on financial assumptions		176	(87)
Gain on experience adjustments		82	343
	¢	94	283

(ii) *Actuarial assumptions*

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

	As of December 31,	
	2019	2018
Nominal discount rate	8.81%	11.61%
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.

(In millions of colones)

			As of December 31, 2019		
			Discount rate variation		
			8.31%	8.81%	9.31%
	3.40%	¢	519	474	**436**
Salary increase rate variation	3.90%	¢	577	**524**	478
	4.40%	¢	**647**	582	529

The minimum amount of the obligation (¢436) occurs if the salary increase rate is the lowest in the sensitivity range (3.40%) and the discount rate is the highest (9.31%). The maximum amount (¢647) occurs in the opposite case. The calculated amount of (¢524) is at the mid-range of this sensitivity analysis.

			As of December 31, 2018		
			Discount rate variation		
			11.11%	11.61%	12.11%
	3.40%	¢	346	326	**309**
Salary increase rate variation	3.90%	¢	366	**342**	323
	4.40%	¢	**387**	361	338

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, 2019, the average retirement period is 27 years, and the average employee seniority was 7.6 years, with an average age of 34.2 years (2018: average retirement period 26.7 years, average employee seniority 7.9 years, with an average age of 34.4 years).

Note 21. Accounts payable

Accounts payable are as follows:

		As of December 31,	
		2019	2018
Government	¢	15,255	19,823
Taxes and withholdings payable		15,572	12,445
Other creditors		98,379	138,943
		129,207	171,211
Less non-current portion		(6,845)	(7,605)
	¢	122,362	163,606

Note 32 includes information regarding the Group’s exposure to interest rate, currency and liquidity risks.

(In millions of colones)

Note 22. Prepaid income

Prepaid income is as follows:

		As of December 31,					
		2019			2018		
		Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢	-	5,046	5,046	-	5,311	5,311
Government grants (2)		8,959	281	9,240	6,495	281	6,776
Transfer of spare parts - materials (3)		-	9,961	9,961	-	10,115	10,115
Other		-	8,340	8,340	-	12,457	12,457
	¢	8,959	23,628	32,587	6,495	28,164	34,659

The nature of the main prepaid income is as follows:

(1) Prepaid mobile services:

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

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

Note 23. Other liabilities

Other liabilities are as follows:

		As of December 31,	
		2019	2018
Security deposits	¢	56,968	53,893
Deposits from private individuals or companies		11,762	9,879
Valuation of financial instruments		(1,935)	(3,224)
Restricted funds		-	74
		66,795	60,622
Less non-current portion		(56,968)	(53,967)
	¢	9,827	6,655

The balance of security deposits in the amount of ¢56,968 (2018: ¢53,893) corresponds mainly to ¢30,988 (2018: ¢27,250) 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 ¢25,980 (2018: ¢26,643) from the Telecom Segment, corresponding to deposits requested from customers to guarantee the rendering of services, for mobile telephony, fixed telephony, and roaming.

Note 24. Accrued employer obligations payable

Accrued employer obligations payable are as follows:

		As of December 31,	
		2019	2018
Vacation	¢	24,682	23,020
Back-to-school bonus		21,608	21,112
Statutory Christmas bonus		1,847	2,280
Occupational hazard insurance		69	86
Third and fifth biweekly salary		281	-
	¢	48,487	46,498

(In millions of colones)

Movement in accrued employer obligations payable is as follows:

		As of December 31, 2019						
		Vacation	Back-to-school bonus	Statutory Christmas bonus	Occupational hazard insurance	Third and fifth biweekly salary	Compensation for payroll downsizing	Total
Opening balance	¢	23,020	21,112	2,280	86	-	-	46,498
Expense for the year - investment		1,640	6,508	9,013	1,961	11,003	-	30,125
Expense for the year - operation		18,517	15,196	13,961	-	-	-	47,674
Used during the year		(18,495)	(21,208)	(23,407)	(1,978)	(10,722)	-	(75,810)
Closing balance	¢	24,682	21,608	1,847	69	281	-	48,487

		As of December 31, 2018						
		Vacation	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	1,930	92	-	8	42,919
Expense for the year - investment		1,972	2,964	8,899	2,018	11,491	2	27,346
Expense for the year - operation		19,552	19,169	18,165	-	-	-	56,887
Used during the year		(18,274)	(22,140)	(26,715)	(2,024)	(11,491)	(10)	(80,653)
Closing balance	¢	23,020	21,112	2,280	86	-	-	46,498

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

(Continued)

(In millions of colones)

Note 25. <u>Memoranda accounts</u>

Memoranda accounts are as follows:

		As of December 31,	
		2019	2018
Guarantees received:			
Performance bonds (1)	¢	98,379	122,426
Collection agents (2)		11,324	7,142
Bid bonds (3)		18,991	1,315
Security deposits		561	346
Subtotal		129,255	131,229
Credit memoranda accounts - other - surety		1,692	1,692
Mobile terminals received from clients		1,514	297
Consigned assets – Computers for the “Hogares conectados” program		1,551	1,308
Contingent assets:			
Savings and loan funds		33,599	31,657
CNFL Employee Association (ASEFYL)		14,792	14,265
Performance bonds - procurement		961	1,159
Materials in transit		286	313
Bid bonds		863	961
Collection of electricity services		1,200	1,188
Materials loans		158	148
Employee guarantees		278	282
Rental of posts		319	206
Performance bonds - labor contracts		167	181
Security deposits (electricity consumption)		425	377
Valle Central Wind Power Plant		83	88
CNFL performance bonds		762	810
Guarantee and Savings Fund - RACSA		3,484	-
Subtotal contingent assets		57,377	51,635
Contingent liabilities:			
Payment arrangements - financing of appliances		63	95
	¢	191,452	186,256

The nature of memoranda accounts is described below:

(1) Performance bonds

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

(2) Collection agents

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

(3) Bid bonds

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

Note 26. Operating income

The effect of the initial application of IFRS 15 regarding revenue from contracts with customers of Grupo ICE is described in Note 7. Due to the transition method elected to apply IFRS 15, comparative information has not been restated to reflect the new requirements.

As indicated in Note 6, Grupo ICE has applied IFRS 15 recognition and measurement rules to its revenue from the Electricity Segment, excluding the Telecom Segment. Therefore, it is for the Electricity Segment that the disclosures required by that standard are made.

a) Flow of revenue

Grupo ICE generates revenue from the sales of electric energy and from the sale of telecom services.

(Continued)

(In millions of colones)

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

		For the period ended December 31, 2019	2018
Electricity services	¢	851,719	812,785
Telecom services		607,645	586,783
	¢	1,459,364	1,399,568

a) *Disaggregation of revenue from contracts related to sales of energy*

In the following table, revenue from contracts with customers is disaggregated by geographical markets.

		For the period ended December 31, 2019	2018
Local	¢	844,248	803,546
Foreign		7,471	9,239
	¢	851,719	812,785

In the following table, revenue from contracts with customers is disaggregated by rate type.

		For the period ended December 31, 2019	2018
Local electricity	¢	734,211	726,204
Transmission charges		75,305	61,533
Public lighting		22,470	11,144
Foreign electricity		7,471	9,239
Management services		4,248	4,665
Other		8,014	-
	¢	851,719	812,785

(In millions of colones)

The sales distributed by principal components are as follows:

		For the period ended December 31,	
		2019	2018
Electricity	¢	533,034	509,263
Demand		189,536	196,945
Transmission charges		75,305	61,533
Public lighting		22,470	20,938
Variable cost of fuel		19,612	8,608
Management services		4,248	4,665
Other		7,514	10,833
	¢	851,719	812,785

Timing of revenue recognition

Revenue from sales of energy is recognized at a point in time when Grupo ICE satisfies the contractual obligation, thereby transferring control.

c) *Balances of the contract*

The following table presents information about accounts receivable related to contracts with customers:

		For the period ended December 31,	
		2019	2018
Trade receivables – Electricity Segment (Nota 16)	¢	68,702	93,650
Contract assets		-	-
Contract liabilities *(i)*		(31,154)	(27,712)
	¢	37,548	65,938

(i) Contract liabilities are related to the early consideration received from customers (security deposits) to subscribe electricity services (see Note 23).

c) *Performance obligations and revenue recognition policies*

Revenue from the Electricity Segment is measured based on the consideration specified in a contract with a customer. Grupo ICE recognizes revenue when it transfers control over a Good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers of the Electricity Segment, including significant payment terms, and the related revenue recognition policies.

Nature and timing of satisfaction of performance obligations, including significant payment terms	To assess if the performance obligation is satisfied, ICE assesses when the control of goods and services is transferred to the customer. ICE first determines if the performance obligation meets the criteria to recognize revenue over time. If control is transferred over time, ICE selects the proper method to measure the progress towards the compliance with the performance obligation. If none of the criteria to recognize revenue over time are met, ICE determines the point in time when the customer obtains control, considering whether the indicators for the transfer of control collectively indicate that the customer has obtained control. For revenue from the Electricity Segment, revenue includes a single performance obligation (sale of electricity) since ICE has assessed that the contracts with customers do not include the supply of goods and services. The performance obligation related to the delivery of electricity is usually satisfied over time when the customer receives and simultaneously consumes the benefits associated with the electricity service provided. Control, including ownership and risk of loss related to electricity, is transferred to the customer upon delivery of electricity at a single point within the electric network. Invoices are payable within 30 days, and there is no significant financial component.
Revenue recognition under IAS 18 (applicable before January 1, 2018)	Revenue is recognized as electricity services are rendered based on monthly billing cycles.

(In millions of colones)

Note 27. <u>Operating costs and expenses</u>

Operating costs and expenses are as follows:

		Operating costs		Operating expenses	
		For the period ended December 31,			
		2019	2018	2019	2018
Depreciation	¢	273,020	275,046	5,609	8,872
Purchase of energy from independent power producers (b)		141,382	149,324	-	-
Services		137,692	126,950	76,863	84,190
Salaries and provisions		108,678	138,210	145,249	182,834
Leases (a)		69,190	72,508	-	-
Import of energy (d)		26,020	4,189	-	-
Materials and supplies		16,843	25,427	103,317	75,033
Fuels for thermal generation (e)		15,323	8,493	-	-
Amortization of intangible assets		10,678	12,189	11,594	11,722
Non-capitalizable works (c)		4,648	-	13,727	88,556
Loss on impairment of trade receivables		-	-	20,558	9,008
Other		114,305	91,213	100,043	58,554
	¢	917,779	903,549	476,960	518,769

(Continued)

a. **Detail of the lease agreements on telecommunications, transmission and power plant equipment, booked and classified as operating leases:**

General characteristics of the agreement											In millions of US dollars					Expense booked for the year	
Service order number	Lessor	Date of agreement	Starting date	Approximate expiration date	Currency	Number of installments	Lease amount	Purchase option	Frequency	Purpose	Amount of agreement	Total paid	Balance of service order as of December 31, 2019	Lease termination agreement	Paid in 2019	2019	2018
No order number	Garabito Thermal Project Trust (1)	05-Nov-07	01-Jun-10	31-Mar-22	US$	142	5	¢ 213	Monthly	Lease of Garabito Thermal Power Plant	US$ 743	596	147	-	52	¢ 33,045	36,468
No order number	Cariblanco Securitization Trust (1)	16-Aug-00	01-Oct-07	31-Dec-19		147	2	¢ 8	Monthly	Lease of Cariblanco Hydroelectric Power Plant	304	304	-	-	25	14,681	14,365
333059	Las Pailas Geothermal Power Plant (2)	07-Mar-07	18-Oct-11	18-Oct-23		24	8	-	Half-yearly	Lease of Las Pailas Geothermal Power Plant	240	143	98	-	18	10,663	9,644
No order number	Toro III Power Plant Trust (1) and (4)	26-Jan-12	01-Jun-22	31-Aug-28		142	1	-	Monthly	Lease of Toro III Power Plant	131	63	68	-	10	5,845	5,447
351643	Junta Administrativa Servicios Eléctricos de Cartago (JASEC) (a) (3)	14-Apr-10	04-Dec-12	03-Jun-22		20	Between US$1,637 and US$854 (in thousands)	¢ 2,494	Half-yearly	Infrastructure for Tejar Step-Down Substation / Easements and expansion tower sites for Río Macho Transmission Line	25	25	-	10	2	1,198	1,245
											US$ 1,443	1,131	313	10	107	65,432	67,169
350702	Cooperativa de Electrificación Rural Guanacaste (b)	16-Feb-10	06-Mar-10	05-Sep-21	¢	138	between ¢617 and ¢473	¢ 3,541	Monthly	Infrastructure for Liberia, Papagayo - Nuevo Colón Transmission Line	¢ 87,848	87,848	-	13,487	3,758	3,758	5,339
											¢ 87,848	87,848	-		3,758	3,758	5,339
																¢ 69,190	72,508

Note: (a) Lease termination agreement, Tejar-JASEC, with purchase option, subscribed in November 2019 in the amount of US$2,983 and ¢2,494.
(b) Lease termination agreement, Cooperativa de Electrificación Rural Guanacaste, subscribed in September 2019.

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.

(Continued)

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, Toro III Hydroelectric Power Plant, below).

- 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.

- 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).

- The Cariblanco Hydroelectric Power Plant ended its lease term in December 2019, when the last lease payment was performed. It was not necessary to execute the purchase option, and no payment was pending. The capitalization will be made during the first quarter of 2020.

(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. That agreement includes the following clauses:

- 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.

- 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.
  e) Administrative expenses derived from creation and operation of the Project Management Unit to be set up by CABEI in accordance with the agreement.

- ICE agrees to lease the plant and act as the lessee. CABEI will be the lessor.

- The term of the lease will start 48 months after the beginning of the construction of the plant.

- Should ICE decide not to exercise the purchase option, the parties may agree to extend the lease agreement for up to six years, which will require an extension to the agreement. ICE may exercise the purchase option prior to expiration of the agreement for an amount equivalent to CABEI's investment not yet recovered.

(3) <u>Tejar Step-down Substation – JASEC:</u>

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 Grupo ICE in the conditions required to start commercial operations (June 4, 2012).

In November 2019, the agreement is terminated through the exercise of the purchase option in the amount of US$2,983 (in thousands) equivalent to ¢2,494.

(4) Toro III Hydroelectric Power Plant:

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

The partnership agreement involved the subscription of a 137-month lease agreement (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).

On September 30, 2019, the CoopeGuanacaste termination agreement indicates that ICE fully complied with the agreement's installments and with the payment for the exercise of the purchase the assets, land and easements.

In December 2019, assets are capitalized in the amount of ¢27,637.

b) Purchase of energy from independent power producers

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

As of December 31, 2019, 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., Inversiones 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 Grupo ICE, free of any liens and encumbrances. The corresponding independent power producers or ICE may request the early transfer of the power plants.

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

- The independent power producers will be responsible for the financing, design, purchase of supplies, construction, tests, start-up of operations, and maintenance of the plants. The independent power producers also agree to deliver all of the electricity generated during the term of the agreement subscribed with Grupo ICE.

- The independent power producers will generate electricity in accordance with the operating 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 four types of agreements are in effect:

- Class A: Applicable to hydroelectric power plants with a power output of less than 5 MW;
- Class B: Applicable to hydroelectric power plants with a power output greater than 5 MW;
- Class C: Applicable to wind power generation plants;
- Class D. Applicable to biomass plants (sugar refineries and cane bagasse).

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

ICE will not make any payments for the 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.

Under Chapter I of Law No. 7200 and since the enactment of that law in 1990, ICE subscribed a number of agreements. Starting 2009, after the expiration of the agreements subscribed in the 1990s, for which the maximum maturity terms were 15 years, ICE renewed such agreements for the remaining term of the concession agreements (20 years). Currently, agreements are being renewed according to the new concessions that the companies have obtained to use water for hydroelectric power generation and concessions awarded by ARESEP to offer public electricity generation services. The agreements being renewed are also adapted to the new demand and offer conditions of the National Electric System, which differ from the ones prevailing at the beginning of these agreements. Three new plants are being incorporated, with agreements subscribed as a result of the tenders made in 2014 and 2015. Currently, agreements are subscribed with 30 companies, i.e. ten wind power agreements, two sugar refineries, and 18 hydroelectric power agreements.

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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, ICE started the process of selection of projects for which new agreements were to be signed. Through Call for bids No. 01-2014 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. Agreements for the three hydroelectric projects were subscribed during the second half of 2017. However, in 2019, a resolution was handed in relation to the failure to comply with one of the agreements; the other two agreements are still at the beginning of the constructive stage.

In September 2015, call for bids No. 03-215 was published on September 24, 2015, through which the company Natural Partners, S.A. is awarded the development of the photovoltaic solar project called P.S.F Valle Escondido I, currently in its construction stage.

Rate adjustments for independent power plants (BOO’s)

On November 30, 2011, through Ruling RJD-163-2011, ARESEP approved the “Model to determine the reference rates for new independent wind power plants”, published in Official Gazette No. 245 on December 21, 2011. On November 20, 2019, the Official Gazette published Ruling RE-0089-IE-2019, which authorizes the most recent rate setting for said power plant modality.

On August 10, 2011, through Ruling RJD-152-2011, ARESEP approved the “Reference rate methodology for new independent hydroelectric power plants”, published in Official Gazette No. 168 on September 1, 2011. On July 22, 2019, the Official Gazette published Ruling RE-0049-IE-2019, which authorizes the most recent rate setting for said power plant modality.

On May 7, 2010, through Ruling RJD-009-2010, ARESEP approved the “Rate setting methodology for independent power producers (Law No. 7200) that subscribe a new agreement to purchase and sale electricity with ICE”, published in Official Gazette No. 109 on June 7, 2010. On January 30, 2019, the Official Gazette published Ruling RE-0008-IE-2019, which authorizes the most recent rate setting for said power plant modality that includes independent hydroelectric and wind power plants.

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On April 26, 2010, through Ruling RJD-004-2010, ARESEP approved the "Rate setting methodology based on the typical cost structure according to the typical cost structure of a model plant for electricity generation with sugarcane bagasse for sale to ICE and indexation formula", published in Official Gazette No. 98 on May 21, 2010. On September 23, 2019, the Official Gazette published Ruling RE-0063-IE-2019, which authorizes the most recent rate setting for said power plant modality.

Currently, ARESEP periodically adjusts the rates for each agreed modality, based on the conditions set forth in each of the four methodologies.

c) <u>Non-capitalizable works</u>

As of December 31, 2019, the amount of non-capitalizable works include the cost for disposal of the Borinquen Geothermal Project in the sum of ¢7,073 (see Note 8 (iii)).

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 was no longer part of the optimum minimum cost plan. The pre-investment costs of that project were reclassified 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 disposal of the project, the investment in El Diquís Hydroelectric Project amounts to ¢88,556 in 2018 (see Note 8 (iii)).

During 2019, an amount of ¢5,315 related to the refitting of the south-center transmission line is derecognized (see note 8 (iii)).

d) <u>Import of energy</u>

Due to the decreased water resource, imports of energy have significantly increased. Imports were negotiated in the Regional Spot Market (RSM) and Regional Contracts Market (RCM).

e) <u>Thermal generation fuels</u>

The increased consumption of fuel (diesel) for thermal generation is due to the demand from the National Electric System and to the country's climate changes, mainly during the first five months of 2019.

(In millions of colones)

Note 28. <u>Other income</u>

		For the year ended December 31, 2019	2018
Construction services (1)	¢	13,730	14,500
Other (2)		60,322	22,634
	¢	74,052	37,134

(1) This item includes invoices for percentage of completion or completed works related to agreements subscribed for engineering, design, construction, or other specialized services provided by Grupo ICE to third parties for projects under construction. Costs related to “Civil works and electromechanical contracts” are booked under that category.

(2) This item includes mainly the gain on the transfer of assets due to the execution of the purchase of the Coopeguanacaste lease (Liberia Papagayo and Nuevo Colón transmission lines) in the amount of ¢17,731.

Note 29. <u>Finance income and finance costs</u>

		For the year ended December 31, 2019	2018
Interest on investments	¢	23,202	23,015
Finance costs (2)		(18,572)	(199,920)
Foreign exchange variations, net (1)		129,161	(99,607)
Income from investments in other companies		295	488
	¢	(27,914)	(276,024)

A description of the main transactions is as follows:

(1) As a result of transactions in foreign currency, during the period ended December 31, 2019, 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 ¢510,836 and ¢381,675, respectively, for a net amount of ¢129,161 (2018: foreign exchange income and expenses in the amount of ¢172,498 and ¢272,105, for a net loss of (¢99,607)). The valuation of monetary assets and liabilities denominated in foreign currency at year-end was performed using the exchange rate of ¢573.53 to US$1.00 (2018: ¢609.84 to US$1.00).

(2) This item includes interest and commission expenses mainly related to internal debt securities, external debt securities and finance leases.

(In millions of colones)

Note 30. Effect of implementation of IFRS 9 Financial Instruments

During the year ended December 31, 2019, Grupo ICE's accumulated amounts as of December 31, 2018 and for the year then ended were restated by incorporating several retrospective adjustments due to the implementation of IFRS 9 *Financial Instruments*. The retrospective adjustments to prior-year financial figures are as follows:

		Equity investments (Note 10)	Investments in financial instruments (Note12)	Effects and other accounts receivable, net (Note 11)	Temporary investments (Note 15)	Trade receivables, net (Note 16)	Valuation of non-derivative financial instruments and hedges	Development reserves
Balance at December 31, 2018, previously reported	¢	30,768	121,338	95,312	53,451	123,398	(41,786)	2,253,159
Effect for implementation of IFRS 9:								
Adjustment to fair value of equity investment in Empresa Propietaria de la Red S.A. (EPR) (1)		1,774	-	-	-	-	1,774	-
Adjustment to expected loss on financial instruments, trade receivables of the Telecom Segment for implementation of IFRS 9 in ICE (2).		-	-	(1,396)	-	(2,880)	-	(4,276)
Adjustment for adoption of IFRS 9, investments in stock 2018. Reversal of market valuation in investments at authorized cost (3).		-	1,191	-	35	-	1,226	-
Total effect of adjustment for implementation of IFRS 9		1,774	1,191	(1,396)	35	(2,880)	3,000	(4,276)
Balance at December 31, 2018, restated	¢	32,542	122,529	93,916	53,486	120,518	(38,786)	2,248,883

(Continued)

(In millions of colones)

		Loss on impairment of trade accounts	Net surplus (deficit)
Balance at December 31, 2018, previously reported	¢	10,708	(256,944)
Effect for implementation of IFRS 9			
Adjustment to expected loss on impairment of trade accounts in the Telecom Segment (2)		(779)	779
Balance as of December 31, 2018, restated	¢	9,929	(256,165)

(1) Adjustment to fair value of equity investment in Empresa Propietaria de la Red S.A. (EPR)

As of December 31, 2019, under IFRS 9 *Financial Instruments*, the equity investment in Empresa Propietaria de la Red S.A. was measured at fair value. This investment was previously measured at cost. As a result, the investment was adjusted at fair value in the amount of ¢1,774 with an effect on other comprehensive income.

(2) Adjustment to expected loss allowance

IFRS 9 requires an expected credit loss (ECL) model, which replaces the incurred loss model set forth in the former IAS 39 to measure the impairment of financial instruments. The ECL model for impairment requires Grupo ICE to account for EL and changes in EL that reflect changes in credit risk since initial recognition of financial assets. Accordingly, it is no longer necessary to have a credit event in order to recognize credit losses. The implementation of IFRS 9 gives rise to the recognition by Grupo ICE of an adjustment to the allowance for impairment of notes receivable of the Telecom Segment in the amount of ¢1,396 and to the allowance for impairment of trade receivables in the amount of ¢2,880.

(3) Adjustment to investments in stock

As part of the implementation of IFRS 9, ICE assessed the business model under which its portfolio of investments is managed. As a result, instruments that were previously classified as available for sale under IAS 39 were classified at amortized cost under IFRS 9. Accordingly, ICE reversed the market valuation, for investments reclassified at amortized cost, in the amount of ¢1,191 and ¢35 for non-current and current assets, respectively.

Note 31. Tax regulations

Tax obligations

Grupo ICE is subject to tax obligations governed by the *Income Tax Law* (Law No. 7092) and amendments thereto, the Regulations to the Income Tax Law and amendments thereto, the *General Sales Tax Law* (Law No. 6826) and amendments thereto, the Regulations to Value Added Tax 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, the *Law to Strengthen Public Finances* (Law No. 9635) 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). The main aspects worth noting related to the new legislation are as follows:

- For VAT, the effect of the new law is related to 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, with a subsequent increase of some of the rates. 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.

- 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%.

- 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

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

ICE is subject to income tax payment to the extent that it obtains profit from its activities. Article 17 of Executive Order No. 449 to create ICE states that "ICE's financial policy will be to capitalize its net profit arising from the sale of electricity." Article 13 of Law No. 8660 also sets forth that in the case of the distribution of surplus in favor of ICE or its companies, arising from the rendering of services or sale products related to electricity, telecommunications, infocommunications and information services, as well as the sale of other products and services developed and sold by ICE or its companies or through alliances with third parties, surplus must be capitalized as development reserves to meet its ends."

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

(In millions of colones)

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 value added tax liability.

Transition Provision I of the Regulations to Law No. 8660 sets forth that income tax payers, whose fiscal period is current at the time the *Income Tax Law* becomes effective (modified by Law No. 9635), will conclude their period following the rules in effect at the beginning of the period, i.e. the income tax as of December 31, 2019 should be determined under the rules of the *Income Tax Law* No. 7092.

The calculation of income tax is as follows:

		For the year ended December 31,	
		2019	2018
Current	¢	(695)	(723)
Deferred		6,536	6,198
	¢	5,841	5,475

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, 2019, 2018 and 2017, and 2016 are open to review by the Tax Authorities. The subsidiaries filed the tax returns for the year ended December 31, 2018.

(Continued)

(In millions of colones)

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

		For the year ended December 31,			
		2019		2018	
Net surplus (deficit), before taxes	¢	110,763		(261,640)	
Less:					
ICE's surplus (deficit) not subject to income tax payment		134,154		(240,641)	
Surplus before taxes, adjusted and attributable to subsidiaries		(23,391)		(20,999)	
Plus:					
Tax loss of subsidiary CNFL		24,376		22,536	
Surplus before taxes attributable to other subsidiaries		985		1,537	
Expected income tax expense		296	30.00%	461	30.00%
Plus (less) tax effect on:					
Audit adjustments		485	0.44%	855	0.77%
Non-taxable income		(169)	-0.15%	(214)	-0.19%
Appropriation to equity reserve		(194)	-0.18%	(325)	-0.29%
Difference between fiscal and financial period		(4)	0.00%	14	0.01%
Non-deductible expenses		282	0.25%	(68)	-0.06%
Current income tax expense	¢	695		723	

Deferred tax

For the year ended December 31, 2019, deferred tax assets in the amount of ¢491 (2018: ¢395) arise from temporary differences related to the provisions and allowances for RACSA.

Deferred tax liabilities in the amount of ¢100,810 (2018: ¢106,289) 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*, and to 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 ¢965 (2018: ¢7,693), which is included in the aforementioned amounts.

(In millions of colones)

For the year ended December 31, 2019 and 2018, deferred tax liabilities, net, arise from the following temporary differences:

		December 31, 2019	Recognized in profit or loss for the year	Effect of deferred tax	December 31, 2018
Deferred tax assets:					
Provision for statutory Christmas bonus and vacations	¢	160	26	-	134
Provision for severance benefits		157	54	-	103
Allowance for obsolete inventory		100	-	-	100
Inventories		27	27	-	-
Allowance for doubtful accounts		32	(13)	-	45
Provision for litigation		3	(10)	-	13
Leases		9	9	-	-
		488	93	-	395
Deferred tax liabilities:					
Revaluation of productive assets		(100,807)	6,443	(961)	(106,289)
	¢	(100,319)	6,536	(961)	(105,894)

(Continued)

(In millions of colones)

		December 31, 2018	Recognized in profit or loss for the year	Effect on allocation of revaluation surplus	Reversal of deferred tax for price index	December 31, 2017
Deferred tax assets:						
Provision for statutory Christmas bonus and vacations		134	18	-	-	115
Provision for severance benefits		103	(20)	-	-	123
Allowance for obsolete inventory		100	(51)	-	-	151
Allowance for doubtful accounts		45	45	-	-	-
Provision for litigation		13	13	-	-	-
		395	5	-	-	389
Deferred tax liabilities:						
Revaluation of productive assets	¢	(106,289)	6,192	(112,487)	1,528	(1,522)
		(105,894)	6,198	(112,487)	1,528	(1,133)

(Continued)

(In millions of colones)

Unrecognized deferred tax assets

As of December 31, 2019 and 2018, 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,			
	2019		2018	
	Amount	Tax effect	Amount	Tax effect
Allowance for doubtful accounts	¢ 1,686,361	505,908	1,771,319	531,396
Allowance for valuation of inventory	950,541	285,162	946,593	283,978
Provision for statutory Christmas bonus	326,918	98,075	345,642	103,693
Provision for severance benefits	4,193,662	1,258,099	5,257,692	1,577,308
	¢ 7,157,482	2,147,245	8,321,246	2,496,374

(c) Value added tax

Grupo ICE also pays value added tax pursuant to the amendment to Law No. 6826, derived from Law No. 9635. This is a value-added tax on the sale of goods and rendering of 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 this tax on the goods and services required to perform its economic activity. Pursuant to Article 14 of Law No. 9635, sales tax paid on goods and inputs that are used in the production of electricity and telecom services can be applied as a credit to the value added tax liability for the period.

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

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

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) <u>Tax in favor of the Firefighter Department of Costa Rica</u>

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

(g) <u>Customs taxes</u>

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

(h) <u>Other obligations</u>

ICE is also an income tax withholding agent in accordance with the *Income Tax Law*. As such, the taxpayer is subject to the withholding and ICE has joint and several liability regarding that obligation. Among its responsibilities as a withholding agent, ICE must withhold and pay the corresponding tax to the Tax Authorities on behalf of recipients of the following types of income:

- 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*.

(In millions of colones)

Note 32. Financial risk management

a) Accounting classifications and fair values

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

			December 31, 2019								
			Carrying amount					Fair value			
	Note		Fair value - hedging instruments	FVOCI – equity instruments	Financial assets at amortized cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets											
Equity investments	10	¢	-	5,750	-	-	5,750	-	-	5,750	5,750
Notes and other receivables, net	11		-	-	5,527	-	5,527	-	-	-	-
Investments in financial instruments	12		-	73,869	-	-	73,869	-	73,869	-	73,869
Temporary investments	15		-	-	120,316	-	120,316	-	-	-	-
Trade receivables, net	16		-	-	148,433	-	148,433	-	-	-	-
Cash and cash equivalents	18		-	-	203,412	-	203,412	-	-	-	-
		¢	-	79,619	477,688	-	557,307	-	73,869	5,750	79,619
Financial liabilities											
Financial debt	19(a) 19(b)	¢	-	-	-	2,139,303	2,139,303	-	2,158,487	-	2,158,487
Finance lease obligations	19(c)		-	-	-	477,255	477,255	-	498,280	-	498,280
Accounts payable	21		-	-	-	129,207	129,207	-	-	-	-
Derivative financial instruments			4,265	-	-	-	4,265	-	4,265	-	4,265
		¢	4,265	-	-	2,745,765	2,750,030	-	2,661,032	-	2,661,032

(Continued)

(In millions of colones)

			December 31, 2018 *(restated)* *									
			Carrying amount					Fair value				
	Note		Fair value - hedging instruments	FVOCI – equity instruments	Financial assets at amortized cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets											
Equity investments	10	¢	-	4,898	-	-	4,898	-	-	4,898	4,898
Notes and other receivables, net	11		-	-	5,214	-	5,214	-	-	-	-
Investments in financial instruments	12		-	62,381	60,148	-	122,529	-	62,381	-	62,381
Temporary investments	15		-	-	53,486	-	53,486	-	-	-	-
Trade receivables, net	16		-	-	120,518	-	120,518	-	-	-	-
Cash and cash equivalents	18		-	-	138,655	-	138,655	-	-	-	-
		¢	-	67,279	378,021	-	445,300	-	62,381	4,898	67,279
Financial liabilities											
Financial debt	19(a) 19(b)	¢	-	-	-	2,211,440	2,211,440	-	2,167,518	-	2,167,518
Finance lease obligations	19(c)		-	-	-	508,246	508,246	-	495,077	-	495,077
Accounts payable	21		-	-	-	171,211	171,211	-	-	-	-
Derivative financial instruments			2,657	-	-	-	2,657	-	2,657	-	2,657
		¢	2,657	-	-	2,890,897	2,893,554	-	2,665,252	-	2,665,252

Fair value of financial instruments

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

i. *Notes and other receivables, investments in financial instruments, temporary investments, trade receivables, net, and cash and cash equivalents*

The carrying amounts of accounts receivable and accounts payable approximate fair value due to their short-term nature.

ii. *Equity investments*

Fair values have been determined in accordance with generally accepted valuation models based on a discounted cash flow analysis, using the most significant indicators such as the discount rate that reflects the credit risk of the counterparties.

iii. *Derivative financial instruments*

Cash Flow hedges:

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

iv. *Financial debt and finance lease obligations*

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

Fair value estimates are made at the date of the consolidated financial statements, based on relevant market information and information concerning the financial instruments. These estimates do not reflect any premium any premium or discount that could result from holding financial instruments as available for sale. These estimates are subjective in nature and involve uncertainties and management judgment and, therefore, cannot be determined with absolute precision. Consequently, estimates could vary if changes are made to those assumptions.

(Continued)

The assumptions used by management to establish the fair value of financial instruments are as follows:

a. The carrying amounts of cash and cash equivalents, notes and accounts receivable, accounts payable and other accounts payable approximate fair value due to their short-term nature.
b. To determine the fair value of the long-term debt as of December 31, 2019, a discount rate was used of 10.52% in colones and between 5.27% and 7.04% in US dollars (2018: 10.11% in colones and between 8.63% and 9.34% in US dollars), which is the rate available for ICE.
c. The carrying amount of cash flow hedges is at fair value.
d. Equity investments are not quoted in an active market and the fair value has not been determined reliably.

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

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

- credit risk
- liquidity risk
- market risk.

i) Risk management framework

The purpose of the Corporate Policy for Financial Risk and Financial Hedging Management is as follows:

"*To provide ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization 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 Management through the financial risk process.

The use of financial derivatives is in accordance with the Corporate Policy for Financial Risk and Financial Hedging Management 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 Management, 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.

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

The Corporate Policy for Financial Risk and Financial Hedging Management and the Manual of Policies and Procedures for Risk Management are part of the risk management framework, as well as the risk management systems, to ensure an effective financial risk management within Grupo ICE. Moreover, through the analysis of risks in the environment, changes in market conditions and financial activities of Grupo ICE are controlled and monitored. Grupo ICE's Internal Audit oversees compliance with Grupo ICE's risk management policies and procedures and reviews the adequacy of the risk framework in relation to the risks faced by Grupo ICE. The Audit Committee also oversees risk management according to its work plan.

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

(Continued)

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

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

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.

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.

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 expected losses. To mitigate this risk, RACSA applies customer quality controls through credit protectors and filters the portfolio of customers in arrears, developing customer profiles.

(In millions of colones)

The carrying amounts of financial assets represent the maximum credit exposure, as follows:

			As of December 31,	
Carrying amount of financial assets	Note		2019	2018 (*restated*) *
Cash and cash equivalents	18	¢	203,412	138,655
Equity investments	10		36,517	32,542
Investments in financial instruments	12		73,869	122,529
Temporary investments	15		120,316	53,486
Guarantee and savings funds	13		222,645	222,212
Notes and other accounts receivable	11		68,744	96,910
Trade receivables	16		148,433	120,518
		¢	873,936	786,852

(*) See Note 30.

(i) *Accounts receivable*

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

For all other financial instruments, the Grupo ICE recognizes the ECL over the remaining life.

The correction of the value of losses over the remaining lifetime of the instrument represents the ECL that will result from all possible default events over the life of a financial instrument.

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

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

- Collection management during the different stages using a variety of means, i.e. text messaging, calls and emails.

- 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.

- In the event that the balance outstanding is not recovered, the administrative collection process begins after 35 days for the Electricity Segment and after 90 days for the Telecom Segment. Administrative collection involves locating the customer and informing about the delinquency as well as notifying the credit 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 determine the need for including them in legal collection, a process performed through the subsidiary Gestión de Cobro, S.A.

Note 7 “Summary of significant accounting policies” and the section below explain in detail the accounting policy for booking the allowance for expected credit loss.

Trade receivables

Grupo ICE determines a collective impairment model for trade receivables segmented by service: Electricity and Telecom, which are in turn segmented by customers: General, Government, Subsidiaries, Private Bank, Foreign and Legal or Administrative Collection. All operations classified under a segment have certain similar risk characteristics such as commercial conditions, term and business types.

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

(In millions of colones)

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

For the Electricity Segment's accounts with the government, a zero loss rate was determined based on the nature of those accounts, which expectation of payment is high. Moreover, delinquency identified at the 2019 year-end is due to operating issues. Accounts with arrears more than 360 days were identified as well but, since they are due from State-owned entities, it was determined that receivables will be collected fully.

For the Electricity Segment's accounts with subsidiaries, a zero loss rate was determined based on the nature of those accounts and because the balances are due from a single institution, i.e. CNFL, with a strong ability to pay.

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

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

As of December 31, 2019, the maximum exposure to credit risk for trade receivables (see Note 16) by geographic region is as follows:

		As of December 31,	
Geographic region		2019	2018 *(Restated)**
Local	¢	182,244	162,208
Foreign		554	462
		182,798	162,670
Allowance for impairment of trade accounts		(34,365)	(42,152)
	¢	148,433	120,518

(*) See Note 30.

(In millions of colones)

As of December 31, 2019, the maximum exposure to credit risk for trade receivables (see Note 16) by counterparty is as follows:

Counterparty		As of December, 2019	2018 *(Restated)**
General borrowers	¢	150,387	133,504
Government		31,857	28,704
Private banks		196	70
Other		358	392
		182,798	162,670
Allowance for impairment trade accounts		(34,365)	(42,152)
	¢	148,433	120,518

(*) See Note 30.

The aging of the balance of trade receivables (see Note 16) and the allowance for expected loss is as follows:

December 31, 2019	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	1.83%	¢	58,920	1,080	No
1 to 30 days	3.03%		28,690	868	No
31 to 60 days	8.77%		31,331	2,747	Yes
61 to 90 days	6.53%		7,881	515	Yes
More than 90 days	52.09%		55,975	29,155	Yes
		¢	182,797	34,365	

December 31, 2018	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	0.60%	¢	83,428	498	No
1 to 30 days	1.72%		15,935	274	No
31 to 60 days	11.46%		3,998	458	Yes
61 to 90 days	19.93%		3,839	765	Yes
More than 90 days	72.39%		55,470	40,157	Yes
		¢	162,670	42,152	

(In millions of colones)

An analysis of the credit quality of trade receivables (see Note 16) is as follows:

		As of December 31,	
		2019	2018 *(Restated)**
Current	¢	148,433	120,518
In legal and administrative collection		34,365	42,152
		182,798	162,670
Allowance for impairment of trade accounts		(34,365)	(42,152)
	¢	148,433	120,518

(*) See Note 30.

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

		As of December 31,	
		2019	2018 *(Restated)**
Opening balance	¢	42,152	58,359
Used		(28,345)	(25,215)
Los son impairment recognized during the year		20,558	9,008
Closing balance	¢	34,365	42,152

(*) See Note 30.

Non-trade receivables

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

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

(In millions of colones)

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

December 31, 2019	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	10.59%	¢	2,408	255	No
1 to 30 days	4.12%		2,451	101	No
31 to 60 days	10.65%		366	39	No
61 to 90 days	4.79%		793	38	Yes
More than 90 days	10.04%		15,909	1,597	Yes
		¢	21,927	2,030	

December 31, 2018	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	0.18%	¢	22,039	39	No
1 to 30 days	1.34%		4,996	67	No
31 to 60 days	0.98%		3,869	38	No
61 to 90 days	0.14%		8,969	13	Yes
More than 90 days	9.66%		17,965	1,736	Yes
		¢	57,838	1,893	

Notes receivable

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

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

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

(Continued)

(In millions of colones)

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

The aging of the balance of notes receivable for payment arrangements (see Note 11), excluding the balances due from Empresa Propietaria de la Red in the amount of ¢2,022 (2018: ¢2,099) and the provision for expected loss is as follows:

December 31, 2019	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	31.27%	¢	1,164	364	No
1 to 30 days	37.04%		27	10	No
31 to 60 days	18.40%		163	30	No
61 to 90 days	23.53%		34	8	No
More than 90 days	67.18%		2,117	1,420	Yes
		¢	3,505	1,832	

December 31, 2018	Weighted average loss rate		Gross carrying amount	Loss allowance	With credit impairment
Current (undue)	8.62%	¢	139	12	No
1 to 30 days	24.24%		33	8	No
31 to 60 days	21.19%		33	7	No
61 to 90 days	22.08%		32	7	No
More than 90 days	47.45%		2,878	1,362	Yes
		¢	3,115	1,396	

(i) *Investments*

Due to the assessment of the credit risk, the ratings given to ICE’s investments are monitored 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, etc.

At board of directors' meeting No. 6148 held on September 7, 2015, a guideline was approved to authorize the Financial Management 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.

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 Grupo 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 Management prepares the short-, medium-, and long-term cash flow projections that are used to estimate the purchase of currency and short-term financing and anticipate liquidity needs.

Treasury management includes preparation of the projected cash flows based on the company's budget information and a weekly schedule that details daily cash inflows and outflows to visualize cash flow behavior and determine daily liquidity needs. As part of this process, to obtain more accurate information on payments, especially those having a strong impact on the availability of cash, segments and different areas of Grupo ICE must send the programming of payments for a 12-month period. 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.

(Continued)

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 million are approved by the board of directors, and amounts equal to or of less than US$20 million are approved by the Corporate Procurement Board. Shortfalls are determined based on the schedule of cash inflows and outflows along with the required terms so as to obtain quotes and borrow funds from the lowest cost bank. Line of credit transactions are documented with a promissory note. The purpose of using lines of credit is covering mismatches between the date of receipt of income and the date of payment of obligations and other liabilities, typical of cash flow management.

(In millions of colones)

Exposure to liquidity risk:

The following are the contractual maturities of financial liabilities for 2019, 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
Non-current liabilities							
Securities payable	¢	1,090,118	1,715,497	66,935	573,797	381,050	693,715
Loans payable		899,030	1,266,110	38,253	273,736	278,947	675,174
Finance lease obligations		457,145	789,653	32,578	141,527	182,714	432,834
Accounts payable		6,845	6,845	-	-	-	6,845
Total non-current liabilities		2,453,138	3,778,105	137,766	989,060	842,711	1,808,568
Current liabilities							
Securities payable		63,026	71,678	71,678	-	-	-
Loans payable		87,129	89,702	89,702	-	-	-
Finance lease obligations		20,110	22,446	22,446	-	-	-
Accounts payable		122,362	122,362	122,362	-	-	-
Accrued interest payable		14,713	14,713	14,713	-	-	-
Total current liabilities		307,340	320,901	320,901	-	-	-
	¢	2,760,478	4,099,006	458,667	989,060	842,711	1,808,568

(Continued)

(In millions of colones)

The following are the contractual maturities of financial liabilities for 2018, including interest:

		Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
Non-current liabilities							
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
Total non-current liabilities		2,594,487	3,757,106	298	1,071,453	964,941	1,720,414
Current liabilities							
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		163,606	163,566	163,566	-	-	-
Accrued interest payable		17,811	17,811	17,811	-	-	-
Total current liabilities		314,221	314,181	314,181	-	-	-
Total non-current liabilities	¢	2,908,708	4,071,287	314,479	1,071,453	964,941	1,720,414

(Continued)

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.

As indicated in Note 19, 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.

iv) *Market risk:*

Market risk is the risk that changes in market prices, e.g. foreign exchange rates and interest rates, will mainly affect Grupo ICE's income or the value of the financial instruments it holds. The objective of risk management is to manage and control exposures to keep this risk within reasonable parameters while simultaneously optimizing return.

Grupo ICE 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).

(Continued)

At board of directors' meeting No. 6148 held on September 7, 2015, a guideline was approved to authorize the Financial Management 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.

<u>Currency risk</u>

Grupo ICE is exposed to currency risk to the extent that its income is denominated in a functional currency while its purchases and loans are denominated in other currencies. The largest exposure held by Grupo ICE is in US dollars.

The financial hedging policy seeks to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the 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.

(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		Euro	
	December 31,					
	2019	2018	2019	2018	2019	2018
Assets						
Investments in financial instruments, net	193	127	-	-	-	-
Notes and other accounts receivable	8	5	-	-	-	-
Cash and cash equivalents	121	104	-	-	-	-
Trade receivables, net	9	8	-	-	1	-
Non-trade receivables	70	38	21	-	-	-
Restricted funds	1	1	-	-	-	-
Total assets in foreign currency	402	283	21	-	1	-
Liabilities						
Securities payable	1,518	1,557	-	-	-	-
Loans payable	1,079	978	21,249	20,177	-	-
Finance lease obligations	389	410	-	-	-	-
Accounts payable	56	92	570	873	1	2
Accrued interest payable	75	7	122	183	-	-
Other liabilities	2	(12)	-	-	-	-
Prepaid income	-	5	-	-	-	-
Total liabilities in foreign currency	3,119	3,037	21,941	21,233	1	2
Excess liabilities over assets	2,717	2,754	21,920	21,233	-	2

(Continued)

(In millions of colones)

The following exchange rates have been applied:

	Exchange rate - US dollar	
	As of December 31,	
	2019	2018
Euro	1.12	1.14
Colones	573.53	609.87
Japanese yen	108.50	110.03

In the case of currency operations, Grupo ICE adheres to the provisions of the *Internal Regulations of the Central Bank of Costa Rica* (Law No. 7558), dated November 27, 1995. Article 89 of that law states that "Non-banking public sector institutions shall execute their currency buy and sell transactions through 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, 2019 and 2018 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.

		2019	2018
Sensitivity to a strengthening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,551,692	1,653,437
Net position in US dollars	US$	2,717	2,754
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	¢	1,706,862	1,818,780
Loss	¢	(155,170)	(165,343)
Sensitivity to a weakening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,551,692	1,653,437
Net position in US dollars	US$	2,717	2,754
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	¢	1,396,523	1,488,093
Gain	¢	155,169	165,344

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

Interest rate risk

Through its Corporate Policy for Financial Risk and Financial Hedging Management and its Risk Strategy, Grupo ICE adopts a financial hedging policy that establishes that the minimum interest rate risk exposure at a variable rate 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, loans payable and finance lease obligations 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
Notes and other accounts receivable	11
Investments in financial instruments	12
Temporary investments	15
Securities payable	19(a)
Loans payable	19(b)
Finance lease obligations	19(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.

(In millions of colones)

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,			
		2019		2018	
		1% strengthening	1% weakening	1% strengthening	1% weakening
Temporary investments	¢	1,203	(1,203)	535	(535)
Long-term financial investments		1,104	(1,104)	1,322	(1,322)
Long-term notes receivable		22	(22)	27	(27)
Short-term notes receivable		552	(552)	753	(753)
Long-term securities payable		10,901	(10,901)	12,126	(12,126)
Short-term securities payable		630	(630)	194	(194)
Long-term loans payable		7,831	(7,831)	7,571	(7,571)
Finance leases payable		4,766	(4,766)	5,157	(5,157)
Net effect	¢	27,009	(27,009)	27,685	(27,685)

(Continued)

(In millions of colones)

b) Derivative assets and liabilities designated as cash flow hedges

As of December 31, 2019, cash flows related to derivative financial instruments are shown below. Contractual cash flows consider the projected cash flow estimates:

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cross-currency swap	¢	(3,911)	3,516	501	888	734	1,278	115
Cross-currency swap		2,016	2,659	379	672	993	615	-
Forward starting swap		(1,099)	280	159	85	36	-	-
Non-deliverable currency swap Tranche a-1		(267)	374	93	147	134	-	-
Non-deliverable currency swap - 3 years		(1,004)	1,024	489	535	-	-	-
	¢	(4,265)	7,853	1,621	2,327	1,897	1,893	115

(Continued)

(In millions of colones)

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

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cross-currency swap	¢	(3,624)	4,633	581	1,037	888	1,742	385
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)	664	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)	227	106	121	-	-	-
	¢	(2,657)	12,697	2,540	3,915	3,014	2,756	472

(Continued)

(In millions of colones)

For cash flow hedges, expected cash flows for the primary instrument and the hedging derivative as of December 31, 2019 are presented below.

		Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢	49,875	14,250	35,625

For cash flow hedges, expected cash flows for the primary instrument and the hedging derivative as of December 31, 2018 are presented below:

		Expected cash flows - liabilities	Less than 12 months	More than 12 months
Forward starting swap	¢	400	281	119
BID-1931A/OC-CR		64,125	14,250	49,875

(In millions of colones)

As of December 31, 2019, the general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

	PR003 Tranche A D091319	PFI -019 US dollar/colón Tranch A-1 E15-96556	PR004 Yen NEM120618ICE	PF-021 Yen C34569	US dollar/colón - 3 years C34812601207	PFI022 US dollar/colón - 3 years C3489721003	PFI024 US dollar/colón - 3 years C38910	PFI026 US dollar/colón - 3 years C39164	PFI027 US dollar/colón - 3 years C3489850286	PFI023 US dollar/colón - 3 years C3489721052	PFI025 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 bonds	2021 bonds	2043 bonds	Bono 2043
Bank	Citibank	Citibank	Citibank	Scotiabank	Citibank	Citibank	Scotiabank	Scotiabank	Citibank	Citibank	Scotiabank
Hedged principal amount	USD 49.8	USD 49.8	JPY 3,413.7	JPY 3,479.6	USD 200.0	USD 50.0	USD 50.0	USD 100.0	USD 200.0	USD 50.0	USD 50.0
Hedged amount per exchange rate	N/A	CRC 34,178.0	USD 37.5	USD 28.2	CRC 113,216.0	CRC 27,814.5	CRC 27,715.5	CRC 55,200.0	USD 110,850.0	CRC 27,814.5	CRC 27,715.5
Exchange rate	N/A	CRC 533.0	USD 91.0	USD 123.3	CRC 566.1	CRC 556.3	CRC 554.3	CRC 552.0	CRC 554.3	CRC 556.3	CRC 554.3
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	14 years	7 years, 8 months and 5 days	14 years	10 years and 5 months	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Base rate	6M LIBOR	3.23%	-	-	6.38%	6M LIBOR	6M LIBOR	6.95%	6.95%	6.38%	6.38%
Spread over/under base rate	3.63%	-	2.20%	-	-	0.90 pb	0.90 pb	-	-	-	-
Fixed rate	-	-	-	-	-	-	-	-	-	-	-
Total fixed rate	6.86%	4.23%	5.11%	5.01%	-	3.05%	2.92%	7.94%	7.72%	6.96%	7.29%
Strategy	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge
Hedged risk	Interest rate	Exchange rate US dollar/colón	Exchange rate Yen/US dollar	Exchange rate Yen/US dollar	Exchange rate US dollar/colón	Exchange rate US dollar/colón	Exchange rate US dollar/colón	Exchange rate US dollar/colón	Exchange rate US dollar/colón	Exchange rate US dollar/colón	Exchange rate US dollar/colón
Instrument	Interest rate swap	Non-deliverable exchange of payment flows	Cross-currency swap	Non-deliverable currency swap	Cross-currency swap	Cross-currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap

(Continúa)

(In millions of colones)

Capital management

Article 17 of Chapter IV "Equity and Earnings" of the *Law to Create the Costa Rican Electricity Institute* (Law No. 449) dated April 8, 1949 sets forth that "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 2019, 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,	
Debt to equity ratio		2019	2018
Total liabilities	¢	3,313,718	3,432,143
(-) Cash and cash equivalents		(203,412)	(138,655)
Net debt		3,110,306	3,293,488
		2,756,846	2,634,366
Total equity			
Less:			
Amounts accumulated in equity related to cash flow hedges		(3,813)	(38,786)
Adjusted equity	¢	2,753,033	2,595,580
Debt to equity ratio	¢	1.130	1.269

(Continued)

(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."

(Continued)

(In millions of colones)

As of December 31, 2019, risk ratings reported for Grupo ICE are as follows:

Issuer	ISIN	Instrument	Risk rating
Banco BAC San José, S.A.	CRBSJ00B1921	BSJ bond	AAA(cri)
Banco BAC San José, S.A.	CRBSJ00B1970	BSJ bond	AA+(cri)
Banco Cathay	00CATAYE01K8	Term certificate of deposit (global bond)	SCR2-
Banco Cathay	00CATAYE6448	Term certificate of deposit (global bond)	SCR2-
Banco Cathay	00CATAYE6471	Term certificate of deposit (global bond)	SCR2-
Banco Cathay	00CATAYE9574	Term certificate of deposit (global bond)	SCR2-
Banco Cathay	00CATAYE9640	Term certificate of deposit (global bond)	SCR2-
Banco Central de Costa Rica	CRBCCR0B4882	Fixed-rate Monetary Stabilization Bond	BB-
Banco Central de Costa Rica	CRBCCR0B5004	Fixed-rate Monetary Stabilization Bond	BB-
Banco Davivienda (Costa Rica) S.A.	CRBDAVIB0088	Davivienda bond	AAA(cri)
Banco de Costa Rica	00BCR00E9585	Term certificate of deposit (global bond)	AA+(cri)
Banco Costa Rica	N/A	Term certificate of deposit	AA+
Banco Improsa	00BIMPRE6572	Term certificate of deposit (global bond)	SCR2
Banco Internacional de C.R. -Miami-	0NR0ICE00358	2747 IDB overnight deposit	BB+
Banco Internacional de C.R. -Miami-	0NR0ICE00689	EIB overnight deposit	BB+
Banco Internacional de C.R. -Miami-	0NR0ICE00806	3589 IDB overnight deposit	BB+
Banco Internacional de C.R.	N/A	Term certificate of deposit	A+
Banco Internacional de C.R.	N/A	Term certificate of deposit	AA+
Banco Nacional de Costa Rica	00BNCR0E6610	Term certificate of deposit (global bond)	AA+(cri)
Banco Nacional de Costa Rica	CRBNCR0B1802	BNCR bond	AA+(cri)
Banco Nacional de Costa Rica Fondos	Open funds	Investment fund, dollars	Scr AA2 (cr)
Banco Popular y de Desarrollo Comunal	00BPDC0CJN18	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7168	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7325	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7341	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7390	BPDC bond	AA+(cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7556	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7580	BPDC bond	AA+(cri)
Banco Popular SAFI Colones	FI-000000006	Investment fund, colones, demand	scr AA2 (cr)
Banco Popular SAFI Dólares	FI-000000007	Investment fund, dollars, demand	Scr AA3 (cr)
Banco PRIVAL,S.A. (formerly BANSOL Banco de Soluciones)	00PRIVAE0633	Term certificate of deposit (global bond)	SCR2
Banco PRIVAL,S.A. (formerly BANSOL Banco de Soluciones)	00PRIVAE6333	Term certificate of deposit (global bond)	SCR2
Banco Promérica	00BPROME0270	Term certificate of deposit (global bond)	SCR3
Banco Promérica	00BPROME6533	Term certificate of deposit (global bond)	SCR2
Banco Promérica	00BPROME9701	Term certificate of deposit (global bond)	SCR3
Banco Scotiabank de Costa Rica, S.A.	CRSCOTIB1292	Scotiabank bond	AAA(cri)
Fideicomiso Benemérito Cuerpo de Bomberos	CRFTBCBB0051	FTBCB bond	SCR AA
Financiera Desyfin	00FDESYE01D4	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE01O1	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE03D0	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE9542	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE9575	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE9872	Term certificate of deposit (global bond)	SCR3
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO bond	SCR AAA
Government	CRG0000B11H2	Central Bank bond	BB-
Government	CRG0000B20I1	Central Bank bond	BB-
Government	CRG0000B21I9	Repurchase operation	BB-
Government	CRG0000B48I2	Zero-coupon Central Bank global bond	BB-
Government	CRG0000B56G9	Repurchase operation	BB-
Government	CRG0000B56H7	Repurchase operation	BB-
Government	CRG0000B76H5	Sovereign adjustable real Central Bank bond	BB-
Government	CRG0000B82H3	Central Bank bond	BB-
Government	CRG0000B90G8	Repurchase operation	BB-
Government	USP3699PAA59	External debt bond - Costa Rica	BB-
Government	N/A	Zero-coupon Central Bank bond, dollars	BB-
Grupo Mutual Alajuela-La Vivienda de Ahorro y Préstamo	CRMADAPB2525	MADAP bond	SCR AA+
Mutual Cartago de Ahorro y Préstamo	00MUCAPE01X2	Term certificate of deposit (global bond)	F1+ (cri)
Mutual Cartago de Ahorro y Préstamo	00MUCAPE02K7	Mortgage Participation Certificate	SCR2
Mutual Cartago de Ahorro y Préstamo	CRMUCAPB1474	MUCAP bond	AA+(cri)
Refinadora Costarricense de Petróleo	CRRECOPB0012	RECOPE standardized bond	AAA (cri)
Refinadora Costarricense de Petróleo	CRRECOPB0020	RECOPE standardized bond	AAA (cri)

(Continúa)

(In millions of colones)

Note 33. Contingent assets and liabilities

As of December 31, 2019, judicial processes involving Grupo ICE are as follows:

	Number of cases		Estimated amount of the claim	As of December 31, 2019 Litigation provision	As of December 31, 2018 Litigation provision
Contingent assets – lawsuits filed by Grupo ICE:					
Execution of judgment (administrative) (1)	26	¢	9,661	-	-
Ordinary administrative (2)	15		4,775	-	-
Other	103		502	-	-
Total contingent assets	144	¢	14,938	-	-
Contingent liabilities – lawsuits filed against Grupo ICE:					
Proceedings before the Administrative and Civil Court of Finance (3)	19	¢	42,109	243	306
Ordinary (administrative)	35		4,502	617	576
Administrative proceedings	98		816	44	48
Execution of judgment (administrative)	11		1,776	44	44
Other	93		4,677	441	688
Total contingent liabilities	256	¢	53,880	1,389	1,661
Less non-current portion				418	347
				¢ 971	1,314

Below is the definition of the main types of proceedings and jurisdictions faced 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-adminsitrative 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 jurisiction, 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, 2019 and 2018 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. The estimated amount as of December 31, 2019 and 2018 is ¢1,030.

Contingent liabilities:

(1) Ordinary contentious proceedings, file No. 18-011595-1027-CA, requesting ICE to reimburse an amount of $4,6 million agreed to purchase Cable Visión on December 5, 2013, which is a response to tax contingencies payable to the Tax Administration for the entity's fiscal periods before the sale. ICE opposes to the amount of the claim, since deductions have to be applied to that amount in relation to the payments made for the periods running from 2010 to 2013. The estimated amount as of December 31, 2019 is ¢1,674.

(2) Administrative proceedings (execution of judgment), file No. 16-00648-1027-CA. ARESEP and SUTEL filed a lawsuit for the execution of attorney's fees, plus legal interest. The amount of such costs was executed based on the estimate of damages made by ICE, applying the schedule of fees, plus interest. On March 25, 2019, ICE answered the lawsuit, rejected the amounts requested by ARESEP and SUTEL, and granted a payment of ¢1 for each of them. The estimated amount as of December 31, 2019 is ¢1,731.

(3) Execution proceedings, file No. 17-003025-1763-CJ, filed by Caja Costarricense de Seguro Social for legal collection against ICE, requesting payment of the contribution made by State-owned entities to the Disability, Old Age and Death Benefit System (RIVM), in accordance with Article 78 of the *Employee Protection Law*. An opposition is filed since ICE must make a reinvestment of its profits. Moreover, the collection relates to the subsidiaries of ICE, which is inadmissible. The estimated amount as of December 31, 2019 is ¢2,186.

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 ¢7,767.

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, 2019, 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, 2019, 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).

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 Segment 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.

On June 27, 2019, through Vote No. 2019000989, the First Chamber of the Supreme Court of Justice upheld the appeal for annulment filed by ICE and annuled the arbitration award, so the payment obligation disappears. The *Whereas* section reads as follows:

“The documents presented with the appeal for annulment number one to sixteen, and number eighteen, are admitted. The request to order Diego Salto and Rafael Luna to certify if Grupo Enel or its entities have been clients of the legal firms they have been directing for the past ten years or clients of the Batalla Abogados and Consortium Legal firms, is denied. Said challenge has been upheld. The arbitration award appealed is annuled. Inform the Bar Association about this sentence in order to investigate the conduct of lawyer Mario Pacheco Flores.”

The entire vote isued by the First Chamber was notified on September 6, 2019. Its thorough analysis determined the filing of a motion for clarification and addition, since the vote did not establish costs. The appeal for annulment filed by ICE in December 2017 requested the following in the petition section: “the plaintiff that filed this appeal for annulment is ordered to pay court costs and attorney’s fees”. A response to the appeal from the First Chamber is pending.

(Continued)

(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.

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. The summons to a new hearing is pending.

(Continued)

(In millions of colones)

On May 9, 2019, the hearing for the appeal filed by P.H. Hidrotárcoles, S.A. was held and the appeal dismissed. Therefore, what was provided in Resolution No. 634-2018-T was upheld.

As of December 31, 2019, Grupo ICE created a provision in the amount of ¢778 (2018: ¢1,315) related to the lawsuits mentioned in the contingent liabilities table.

Due to uncertainty in the final outcome of the lawsuits, as of December 31, 2019, Grupo ICE did not include any additional accrual to cover the potential future obligations.

Note 34. 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 and financial transactions with related parties:

		Sale of goods and services		Purchase of goods and services	
		For the year ended December 31,			
		2019	2018	2019	2018
Construction services:					
Uno P.H. Reventazón/Scotiabank/2013 Trust	¢	-	362	-	-
Municipalities		4,084	-	3,238	-
Costa Rican Institute of Water and Sewer Systems (AyA)		1,793	-	-	-
National Roadway Council (CONAVI)		883	-	469	-
Road Safety Council		889	-	1,009	-
Costa Rican Social Security Administration		324	-	-	-
Engineering services:					
Comisión Nacional de Prevención de Riesgo y Atención de emergencias (National Emergency Comission)		5,214	10,252	-	-
Other related parties		3,599	887	4,444	-
Sale of energy:					
Government entities		5,607	5,785	-	-
Interest:					
Government entities		6,738	6,204	-	-
Autonomous institutions		1,148	1,393	-	-
State-owned financial entities		4,383	5,226	11,425	12,218
Other services:					
Government entities		20,446	29,620	2,763	4,807
Autonomous institutions		-	-	53,961	-
State-owned financial entities (1)		-	-	-	56,670
Other related parties		2,009	-	1,197	641
	¢	57,117	59,729	78,506	74,336

(Continued)

(In millions of colones)

(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.

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

		As of December 31,			
		Receivable		Payable	
		2019	2018	2019	2018
Government entities	¢	5,608	6,217	472	622
Autonomous institutions		6,874	13,904	5,723	5,831
State-owned financial entities		-	-	-	4,579
Other related parties		2,266	-	-	8
	¢	14,748	20,121	6,195	11,040

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 impairment loss or doubtful accounts due from related parties.

As of December 31, 2019, loans and leases payable with State-owned financial entities amounted to ¢235,549 (2018: ¢253,275).

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

		As of December 31,	
		2019	2018
Cash equivalents	¢	7,639	17,682
Held to maturity		72,064	116,267
Restricted funds		1,978	1,017
	¢	81,681	134,966

(In millions of colones)

As of December 31, 2019, interest on securities due from with State-owned financial entities amounts to ¢1,505 (2018: ¢3,166).

As of December 31, 2019, ownership interest in autonomous and non-governmental agencies amount to ¢36,517 (2018: ¢32,542) (see Note 10).

Compensation to key management personnel

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

		As of December 31,	
		2019	2018
Short-term benefits	¢	6,174	5,550
Post-employment benefits		534	1,362
Other long-term benefits		459	136
Severance benefits		85	-
	¢	7,252	7,048

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 35. Segment information

(a) Basis for segmentation

Grupo ICE has the following reportable segments:

- Telecom Segment, which includes ICE’s Telecom Sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA) and Gestión Cobro Grupo ICE, S.A.: 94.18% (2018: 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.: 5.82% (2018: 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:

(In millions of colones)

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

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

(c) Revenue and profit or loss by segment

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

		For the years ended December 31,					
		Electricity		Telecom		Consolidated total	
Profit (loss) per segment		2019	2018	2019	2018 (*restated*)	2019	2018 (*restated*)
Income per segment	¢	851,733	812,785	607,631	586,783	1,459,364	1,399,568
Investment income		18,036	15,479	5,166	7,528	23,202	23,007
Finance costs		(168,432)	(185,057)	(12,140)	(14,863)	(180,572)	(199,920)
Foreign exchange differences, net		107,949	(84,022)	21,212	(15,585)	129,162	(99,607)
Income from investments in other companies		456	431	(161)	57	295	488
Deficit (Surplus), net	¢	122,942	(223,146)	(6,338)	(32,736)	116,604	(256,944)

(*) See Note 30.

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 ¢6,905 in 2019 (2018: ¢6,540).

- Revenue from the sale of services by the Telecom Segment to the Electricity Segment in the amount of ¢2,872 in 2019 (2018: ¢2,490).

(In millions of colones)

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.

(d) Assets and liabilities by segment

		For the years ended December 31,					
		Electricity		Telecommunications		Consolidated total	
Assets and liabilities by segment		2019	2018 *(restated)**	2019	2018 *(restated)**	2019	2018 *(Restated)**
Assets	¢	4,780,333	4,799,506	1,200,231	1,267,003	6,070,564	6,066,509
Liabilities		2,839,636	2,948,610	474,082	483,493	3,313,718	3,432,103

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)

(In millions of colones)

(e) Other segment information

		Depreciation and amortization		Additions to non-current assets	
		As of December 31,		As of December 31,	
		2019	2018	2019	2018
Telecom Segment	¢	131,978	139,424	132,138	13,846
Electricity Segment		177,483	174,271	302,139	105,597
	¢	309,461	313,695	434,277	119,443

Note 36. Subsequent events

a. COVID-19 pandemic

The COVID-19 pandemic has had a significant impact on Grupo ICE. ICE’s normal operations had to be adjusted to the current situation, pursuant to the measures defined by the government and the health authorities.

In terms of its operations, in compliance with the measures to reduce personnel on site, Grupo ICE has made available to its clients all virtual channels to access its services. There is also a number of collection points countrywide, which have not been affected by the measures.

Billing, collection, delivery and service continuity processes have been adapted to maintain the operations of the two segments (telecom and electricity) as well as corporate support services, incorporating work from home whenever possible.

For corporate customers, service requirements have been addressed through virtual channels, ensuring service quality.

Technical personnel is available 24/7 to ensure the continuity of the services provided by ICE.

Grupo ICE’s generation plants are operating normally, according to the operating role and the needs of the National Electric System. Electricity is an essential service for the country, particularly in times of crisis. The generation system has increased efforts to ensure the normal operation of all processes, especially the operation and maintenance of the plants, as well as to confirm ICE’s commitment to supply electricity to Costa Ricans and for opportunities in the regional market.

As part of the analysis performed, payment arrangements have been provided to the customers of the Electricity Segment and the Telecom Segment that have been affected by the pandemic. In addition, there has been a decrease in the demand for services from both segments, given that several productive sectors in the country have been negatively affected and have considerably reduced their activities. This has required a detailed analysis to determine the decrease in forecasted income and to take the measures necessary to maintain ICE's financial stability.

These adjustments seek to guarantee compliance with covenants and monitor the debt payment schedule, as foreseen in Grupo ICE's 2020 budget. Additionally, Grupo ICE has authorized lines of credit with several financial entities that can be used if necessary.

b. Risk rating

On February 14, 2020, Moody's confirmed the risk rating assigned to ICE (B1) and enhanced the perspective from negative to stable.

On May 8, 2020, Fitch Ratings reduced the rating assigned to ICE as a result of the recent decrease (by Fitch Ratings) in the sovereign rating for Costa Rica from 'B+' to 'B'.