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

Condensed Consolidated Interim Financial Statements

June 30, 2021

(With Independent Auditors' Report on Review of Interim Financial Information)

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Independent Auditors' Report on Review of Interim Financial Information

To the Board of Directors of
Instituto Costarricense de Electricidad

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Instituto Costarricense de Electricidad and Subsidiaries (Grupo ICE) as of June 30, 2021, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as of June 30, 2021 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG

San José, Costa Rica

September 27, 2021

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

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

Assets	Note		June 30, 2021	December 31, 2020
Non-current assets:				
Property, plant and equipment, net	5	¢	5,337,549	5,427,354
Intangible assets, net	6		103,312	107,612
Other assets			13,562	15,230
Equity investments			7,341	7,305
Notes and other accounts receivable, net			181,054	184,684
Investments in financial instruments	7		294,697	266,745
Total non-current assets			**5,937,515**	**6,008,930**
Current assets:				
Inventories	8		43,424	56,455
Notes and other accounts receivable, net			42,064	55,464
Investments in financial instruments	9		180,611	212,416
Trade receivables, net			192,978	175,829
Prepaid expenses			18,842	18,836
Other assets			2,431	3,708
Cash and cash equivalents			400,115	311,743
Assets held for sale			52	150
Total current assets			**880,517**	**834,601**
Total assets		¢	**6,818,032**	**6,843,531**
Liabilities and equity				
Equity:				
Paid-in capital		¢	155	155
Reserves			2,385,718	2,384,278
Retained earnings			316,765	319,371
Equity attributable to owners of Grupo ICE			2,702,638	2,703,804
Non-controlling interests			5,956	5,989
Total equity			**2,708,594**	**2,709,793**
Liabilities:				
Non-current liabilities:				
Bonds payable	10		687,065	720,010
Loans payable	10		1,412,426	1,435,803
Lease liabilities	10		351,152	375,391
Employee benefits	11		449,336	436,657
Accounts payable			139,581	145,283
Contract liabilities			67,077	62,839
Deferred income - Government grants			14,719	15,203
Deferred tax liabilities			91,583	94,365
Provisions	12		1,029	25
Other liabilities			379	-
Total non-current liabilities			**3,214,347**	**3,285,576**
Current liabilities:				
Bonds payable	10		424,243	380,870
Loans payable	10		125,770	131,408
Lease liabilities	10		41,538	38,953
Employee benefits	11		104,634	98,086
Accounts payable			140,794	137,489
Contract liabilities			10,981	12,564
Deferred income - Government grants			281	281
Income tax payable			-	3,283
Accrued interest payable			13,411	14,412
Provisions	12		6,422	9,710
Other liabilities			27,017	21,106
Total current liabilities			**895,091**	**848,162**
Total liabilities			**4,109,438**	**4,133,738**
Total equity and liabilities		¢	**6,818,032**	**6,843,531**

The notes on pages 1 to 33 are an integral part of these condensed consolidated financial statements.

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

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

For the six months ended June 30,

	Note		2021	2020
Revenue	13	¢	**656,328**	**700,243**
Operating costs:				
Operation and maintenance			243,069	248,067
Operation and maintenance of leased assets			22,508	27,735
Purchases and supplemental services			75,193	72,964
Costs of sale			32,014	28,178
Production management			45,407	39,782
Total operating costs			418,191	416,726
Gross profit			**238,137**	**283,517**
Other income			16,519	17,184
Operating expenses:				
Administrative expenses			61,848	70,419
Selling expenses			63,705	64,730
Preliminary studies			12,070	12,412
Supplemental expenses			1,640	860
Impairment loss on trade receivables			227	1,654
Other expenses			15,381	13,605
Total operating expenses			154,871	163,680
Operating income			**99,785**	**137,021**
Finance income and costs:				
Finance income			20,573	16,553
Finance costs			(126,409)	(132,691)
Foreign exchange differences, net			(6,316)	(40,190)
Net finance costs			**(112,152)**	**(156,328)**
Share of profit (loss) of equity-accounted investees			35	(33)
Loss before tax			**(12,332)**	**(19,340)**
Income tax benefit			2,733	2,577
Loss for the period		¢	**(9,599)**	**(16,763)**
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Effect of actuarial losses for the period		¢	188	-
			188	-
Items that are or may be reclassified subsequently to profit or loss				
Gain (loss) on fair value of cash flow hedges			8,277	(13,723)
Valuation of investments in financial instruments at FVOCI			5	-
			8,282	**(13,723)**
Other comprehensive income for the period, net of tax			**8,470**	**(13,723)**
Total comprehensive income for the period		¢	**(1,129)**	**(30,486)**
Profit attributable to:				
Owners of Grupo ICE		¢	(9,570)	(16,736)
Non-controlling interests			(29)	(27)
		¢	**(9,599)**	**(16,763)**
Total comprehensive income attributable to:				
Owners of Grupo ICE		¢	(1,096)	(30,459)
Non-controlling interests			(33)	(27)
		¢	**(1,129)**	**(30,486)**

The notes on pages 1 to 33 are an integral part of these condensed consolidated financial statements.

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

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

For the six months ended June 30,

		Reserves									**Retained earnings**					
	Paid-in capital	**Legal reserve**	**Project development reserve**	**Actuarial gains (losses)**	**Valuation of equity investments at FVOCI**	**Valuation of non-derivative financial instruments and hedges**	**Development reserve**	**Capital reserve**	**Restricted profit from the capitalization of investment in subsidiary**	**Total**	**Retained earnings on subsidiaries**	**Loss for the period**	**Total**	**Equity attributable to owners of Grupo ICE**	**Non-controlling interests**	**Total equity**
Balance as of January 1, 2020 as previously reported	**¢ 155**	**3,328**	**71**	**(12,213)**	**579**	**1,995**	**2,439,905**	**12,717**	**62,380**	**2,508,762**	**309,802**	**-**	**309,802**	**2,818,719**	**6,083**	**2,824,802**
Total comprehensive income for the period:																
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	3,912	(20,648)	(16,736)	(16,736)	(27)	(16,763)
Other comprehensive income for the period:																
Net loss on fair value of cash flow hedges	-	-	-	-	-	(13,723)	-	-	-	(13,723)	-	-	-	(13,723)	-	(13,723)
Total comprehensive income for the period	-	-	-	-	-	(13,723)	-	-	-	(13,723)	3,912	(20,648)	(16,736)	(30,459)	(27)	(30,486)
Other equity movements:																
Appropriation to reserves	-	-	-	-	-	-	-	414	-	414	-	-	-	414	-	414
Transfer to capital reserve	-	-	-	-	-	-	(20,648)	-	-	(20,648)	-	20,648	20,648	-	-	-
Total other equity movements	-	-	-	-	-	-	(20,648)	414	-	(20,234)	-	20,648	20,648	414	-	414
Balance as of June 30, 2020	**¢ 155**	**3,328**	**71**	**(12,213)**	**579**	**(11,728)**	**2,419,257**	**13,131**	**62,380**	**2,474,805**	**313,714**	**-**	**313,714**	**2,788,674**	**6,056**	**2,794,730**
Balance as of January 01, 2021	**¢ 155**	**3,739**	**71**	**(16,996)**	**1,032**	**(10,634)**	**2,331,676**	**13,010**	**62,380**	**2,384,278**	**319,371**	**-**	**319,371**	**2,703,804**	**5,989**	**2,709,793**
Total comprehensive income for the period:																
Loss for the period	-	-	-	-	-	-	-	-	-	-	(2,576)	(6,994)	(9,570)	(9,570)	(29)	(9,599)
Other comprehensive income for the period:																
Effect of actuarial loss for the period	-	-	-	188	-	-	-	-	-	188	-	-	-	188	-	188
Net gain on fair value of cash flow hedges	-	-	-	-	-	8,281	-	-	-	8,281	-	-	-	8,281	(4)	8,277
Valuation of investments in financial instruments at FVOCI	-	-	-	-	-	5	-	-	-	5	-	-	-	5	-	5
Total comprehensive income for the period	-	-	-	188	-	8,286	-	-	-	8,474	(2,576)	(6,994)	(9,570)	(1,096)	(33)	(1,129)
Other equity movements:																
Appropriation to reserves	-	-	-	-	-	-	-	(40)	-	(40)	(30)	-	(30)	(70)	-	(70)
Transfer to capital reserve	-	-	-	-	-	-	(6,994)	-	-	(6,994)	-	6,994	6,994	-	-	-
Total other equity movements	-	-	-	-	-	-	(6,994)	(40)	-	(7,034)	(30)	6,994	6,964	(70)	-	(70)
Balance as of June 30, 2021	**¢ 155**	**3,739**	**71**	**(16,808)**	**1,032**	**(2,348)**	**2,324,682**	**12,970**	**62,380**	**2,385,718**	**316,765**	**-**	**316,765**	**2,702,638**	**5,956**	**2,708,594**

The notes on pages 1 to 33 are an integral part of these condensed consolidated financial statements.

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

Condensed Consolidated Statement of Cash Flows
(In millions of colones)

For the six months ended June 30,

	Note		2021	2020
Cash flows from operating activities				
Loss for the period		¢	(9,599)	(16,763)
Adjustments for:				
Depreciation			156,223	154,227
Amortization			11,211	14,226
Amortization of contract liabilities	13		(5,129)	(3,985)
Net realizable value of inventories			(10)	(461)
Net finance costs			105,836	116,138
Impairment loss on trade receivables	15		227	1,654
Share of profit of equity-accounted investees			(35)	33
Loss on disposal of assets			4,183	6,098
Employee benefits	11		9,123	10,044
Income tax benefit			(2,733)	(2,577)
Foreign exchange differences			4,323	36,782
			273,619	315,416
Changes in:				
Notes and other accounts receivable			12,312	(14,094)
Trade receivables			(17,787)	(35,982)
Inventories			601	(3,214)
Accounts payable			(2,397)	96,294
Contract liabilities			7,784	(19,350)
Employee benefits and other provisions			(10,874)	(64,477)
Other liabilities			6,260	21,537
Cash flows from operating activities			**269,518**	**296,130**
Income taxes paid			(3,332)	(6,683)
Net cash from operating activities			**266,186**	**289,447**
Cash flows from investing activities				
Interest received			25,702	22,716
Investments in financial instruments			9,543	10,809
Additions to property, plant and equipment			(37,025)	(53,379)
Proceeds from sale of property, plant and equipment			2,333	-
Additions to intangible assets			(6,945)	(6,272)
Government grants			(484)	(360)
Other assets			1,720	(8,438)
Net cash from (used in) investing activities			**(5,156)**	**(34,924)**
Cash flows from financing activities:				
Proceeds from the issue of bonds payable	10		4,814	-
Amortization of bonds payable	10		(444)	(952)
Proceeds from the issue of loans payable	10		44,111	34,460
Amortization of loans payable	10		(69,872)	(59,400)
Amortization of lease liabilities	10		(27,772)	(24,221)
Interest paid	10		(125,489)	(132,229)
Net cash used in financing activities			**(174,652)**	**(182,342)**
Net increase in cash and cash equivalents			86,379	72,181
Cash and cash equivalents as of January 1			311,743	197,366
Effect of movements in exchange rates on cash held			1,993	3,408
Cash and cash equivalents as of June 30		¢	**400,115**	**272,955**

The notes on pages 1 to 33 are an integral part of these condensed consolidated financial statements.

Note 1. <u>Reporting entity</u>

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

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

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

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

The main activities of the subsidiaries are as follows:

- *<u>Compañía Nacional de Fuerza y Luz, S.A.</u>*

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

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- *Radiográfica Costarricense, S.A.*

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

- *Compañía Radiográfica Internacional Costarricense, S.A.*

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

- *Cable Visión de Costa Rica*

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

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

As of June 30, 2021, CVCR has no commercial activities.

- *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 administrative collection and legal collection management services in connection with balances receivable from the commercial activities of the entities of Grupo ICE.

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

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Note 2. <u>Basis of accounting</u>

These interim financial statements for the six months ended June 30, 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with Grupo ICE's last annual consolidated financial statements as of and for the year ended December 31, 2020 (last annual financial statements). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in Grupo ICE's financial position and performance since the last annual financial statements.

These consolidated interim financial statements were authorized for issue by General Management on September 26, 2021.

Note 3. <u>Use of judgments and estimates</u>

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

The significant judgements made by management in applying Grupo ICE's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

(i) *<u>Measurement of fair values</u>*

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

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

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

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

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

Note 4. Change in accounting policy

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in Grupo ICE's consolidated financial statements as of December 31, 2020 and for the year then ended.

The change in accounting policy will also be reflected in Grupo ICE's consolidated financial statements as of December 31, 2021.

Specific policies applicable from January 1, 2021 for interest rate benchmark reform

Since the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changes as a result of interest rate benchmark reform, Grupo ICE updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

(In millions of colones)

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then Grupo ICE first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. Subsequently, Grupo ICE applies the policies on accounting for modifications set out above to the additional changes.

Note 5. Property, plant and equipment, net

During the six months ended June 30, 2021, additions to property, plant and equipment amount to ¢53,831. The most significant additions were applied to the following projects: 1) RANGE II (includes design, construction and maintenance costs of the New Generation Access Network) in the amount of ¢12,365; 2) Installation of residential services (installation of new residential services in the whole country) in the amount of ¢11,782; 3) Borinquen (geothermal project located on the Guanacaste mountain range) in the amount of ¢6,436; 4) Extension of the LTE network (its goal is to provide more bandwidth and data transmission speeds) in the amount of ¢3,168, and 5) Last mile substitution (substitutes (migrates) the copper network of existing customers in the areas of initial implementation of the RANGE Stage II project, with fiber optic to the end user that allows providing high-technology multiplay services with ultra-wideband) in the amount of ¢2,880. Additionally, assets with a carrying amount of ¢519 were sold during the period, and assets with a carrying amount of ¢797 were derecognized due to impairment.

Note 6. Intangible assets, net

During the six months ended June 30, 2021, movement in intangible assets is related to additions in the amount of ¢6,980, mainly licenses, systems and applications, net of the effects of the amortization for the period in the amount of ¢11,280.

Note 7. Investments in financial instruments

Investments in financial instruments are as follows:

		As of June 30, 2021	As of December 31, 2020
At fair value through other comprehensive income	¢	282,450	253,982
At fair value through profit or loss		12,247	12,763
	¢	294,697	266,745

Investments in financial instruments in the amount of ¢290,141 (2020: ¢262,074) are destined specifically for the operation of ICE's Guarantee and Savings Fund.

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Investments in financial instruments are as follows:

				June 30, 2021		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
At fair value through other comprehensive income						
Government						
Bonds	Fixed-rate instruments	Colones	¢	165,294	5.27% - 10.75%	2022 to 2031
Bonds	Variable-rate instruments	Colones		49,641	4.53% - 5.88%	2022 to 2044
Bonds	Fixed-rate instruments	US dollars		32,915	12.57% - 15.23%	2022 to 2029
Bonds	Fixed-rate instruments	DU		1,000	4.73%	2022 to 2026
Public financial entities						
Bonds	Fixed-rate instruments	Colones		10,386	5.46% - 10.24%	2022 to 2024
Bonds	Variable-rate instruments	Colones		8,684	4.56% - 4.77%	2023 to 2024
Private financial entities						
Bonds	Fixed-rate instruments	Colones		7,386	4.97% - 11.59%	2022 to 2033
Bonds	Variable-rate instruments	Colones		508	5.22% - 5.52%	2022 to 2033
Bonds	Fixed-rate instruments	US dollars		2,221	8.84%	2023
Public non-financial entities						
Bonds	Fixed-rate instruments	US dollars		795	12.92%	2022 to 2028
Private non-financial entities						
Bonds	Variable-rate instruments	Colones		1,814	4.70%	2023
Bonds	Fixed-rate instruments	US dollars		1,490	13.00%	2022 to 2027
Bonds	Fixed-rate instruments	Colones		316	8.62%	2023
				282,450		
At fair value through profit or loss						
Public financial entities						
Bonds	Closed fund - dividends	US dollars		5,024	8.65% - 18.20%	-
Private financial entities						
Bonds	Closed fund - dividends	US dollars		7,223	9.93% - 14.86%	-
				12,247		
			¢	294,697		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Issuer	Type of financial instrument	Currency		December 31, 2020 Balance	Interest rate	Maturity
At fair value through other comprehensive income						
Public financial entities						
Bonds	Fixed rate instruments	Colones	¢	7,468	5.84% to 8.42%	2022 to 2024
Bonds	Fixed rate instruments	US dollars		424	13.01%	2022
Bonds	Variable rate instruments	Colones		5,615	4.61% to 5.35%	2022 to 2024
Bonds	Variable rate instruments	US dollars		197	2.50% to 4.75%	2024 to 2025
Public non-financial entities						
Bonds	Fixed rate instruments	US dollars		1,697	5.27% to 13.50%	2022 to 2028
Government						
Bonds	Fixed rate instruments	Colones		118,979	7.91% to 10.25%	2022 to 2031
Bonds	Fixed rate instruments	US dollars		31,018	1.54% to 6.73%	2022 to 2029
Bonds	Fixed rate instruments	DU		13,164	1.46% to 3.70%	2022 to 2026
Bonds	Variable rate instruments	Colones		58,729	3.17% to 5.94%	2022 to 2044
Private financial entities						
Bonds	Fixed rate instruments	Colones		7,718	6.96% to 9.60%	2022 to 2023
Bonds	Fixed rate instruments	US dollars		1,802	12.17%	2023
Bonds	Variable rate instruments	Colones		1,495	4.78% to 5.65%	2022 to 2033
Private non-financial entities						
Bonds	Fixed rate instruments	Colones		719	8.62% to 8.85%	2023
Bonds	Fixed rate instruments	US dollars		3,145	14.07% to 14.65%	2022 to 2027
Bonds	Variable rate instruments	Colones		1,812	4.93%	2023
				253,982		
At fair value through profit or loss						
Public financial entities						
Bonds	Closed fund - dividends	US dollars		5,230	7.09% al 19.26%	
Private financial entities						
Bonds	Closed fund - dividends	US dollars		7,533	7.38% al 11.62%	
				12,763		
			¢	266,745		

(Continued)

(In millions of colones)

Note 8. Inventories

As of June 30, 2021, inventories include decreases in the net realizable value in the amount of ¢31,447 (December 2020: ¢32,249). The uses of the allowance amount to ¢802 during the six months then ended. During that period, no additional write-downs were applied to the inventory amount.

Note 9. Investments in financial instruments

Investments in financial instruments are as follows:

		As of June 30, 2021	As of December 31, 2020
At amortized cost	¢	78,476	85,242
At fair value through other comprehensive income		91,065	102,968
At fair value through profit or loss		11,070	24,206
	¢	180,611	212,416

Investments in financial instruments measured at amortized cost include a restricted amount of ¢11,640 (December 31, 2020: ¢12,248), which is earmarked as part of a provision for the quarterly payment of interest and principal on the series closest to maturity of bonds payable, with a carrying amount of ¢47,182 as of June 30, 2021 (December 31, 2020: ¢44,735). Similarly, investments in financial instruments in the amount of ¢59,038 (December 31, 2020: ¢50,179) are destined for the specific operation of ICE’s Guarantee and Savings Fund.

(In millions of colones)

Investments in financial instruments are as follows:

Issuer	Type of financial instrument	Currency		As of June 30, 2021 Balance	Interest rate	Maturity
At amortized cost						
Public financial entities						
Bonds	Fixed-rate instruments	US dollars	¢	50,129	1% - 5.67%	2021
Bonds	Fixed-rate instruments	Colones		15,381	3.18% - 3.57%	2021
Bonds	Variable-rate instruments	US dollars		5,036	1.35% - 4.75%	2021
Bonds	Variable-rate instruments	Colones		104	4.5% - 8.25%	2021
Government						
Bonds	Fixed-rate instruments	Colones		1,586	2.19% - 2.43%	2021
Private financial entities						
Bonds	Fixed-rate instruments	Colones		4,037	1.75% - 3.25%	2021
Bonds	Variable-rate instruments	US dollars		2,083	3.15% - 3.25%	2021
Bonds	Investment fund	Colones		121	1.00%	2021
				78,477		
At fair value through other comprehensive income						
Government						
Bonds	Fixed-rate instruments	US dollars		63,354	6.48%	2021
Bonds	Fixed-rate instruments	Colones		2,607	8.98%	2021
Public financial entities						
Bonds	Variable-rate instruments	Colones		14,284	4.07% - 12.43%	2021
Bonds	Fixed-rate instruments	Colones		4,473	12.41% - 39.63%	2021
Bonds	Fixed-rate instruments	US dollars		437	12.43%	2021
Private financial entities						
Bonds	Fixed-rate instruments	US dollars		2,330	9.80% - 14.06%	2021
Bonds	Variable-rate instruments	Colones		1,950	4.72% - 5.93%	2021
Bonds	Fixed-rate instruments	Colones		1,629	3.01% - 9.08%	2021
-				91,064		
At fair value through profit or loss						
Public financial entities						
Bonds	Investment fund	Colones		10,880	1.14%	2021
Bonds	Investment fund	US dollars		190	6.89% - 7.55%	2021
				11,070		
			¢	180,611		

(Continued)

(In millions of colones)

Issuer	Type of financial instrument	Currency		As of December 31, 2020 Balance	Interest rate	Maturity
At amortized cost						
Government						
Central Bank bonds	Variable rate instruments	US dollars	¢	22,062	4.16% - 5.87%	2021
Public financial entities						
Bonds	Fixed rate instruments	US dollars		24,606	2.50% - 3.27%	2021
Bonds	Variable rate instruments	Colones		10,500	1.30% al 8.25%	2021
Bonds	Variable rate instruments	US dollars		6,138	1.35% - 4.75%	2021
Private financial entities						
Bonds	Fixed rate instruments	US dollars		11,069	2.85% - 3.80%	2021
Bonds	Variable rate instruments	Colones		4,862	3.15% - 3.25%	2021
Bonds	Variable rate instruments	US dollars		104	0.75% - 2.05%	2021
Private non-financial entities						
Bonds	Variable rate instruments	US dollars		5,901	0.00%	2021
				85,242		
At fair value through other comprehensive income						
Government						
Central Bank bonds	Fixed rate instruments	US dollars		52,763	5.52% - 14.35%	2021
Central Bank bonds	Fixed rate instruments	Colones		10,002	2.54%	2021
Monetary stabilization bonds	Fixed rate instruments	Colones		6,150	8,63%	2021
Central Bank bonds	Variable rate instruments	Colones		955	6,82%	2021
Public financial entities						2021
Bonds	Variable rate instruments	Colones		17,052	5.38% - 6.50%	2021
Bonds	Fixed rate instruments	Colones		6,112	2.61% - 9.15%	2021
Bonds	Fixed rate instruments	US dollars		3,105	5.88%	2021
Private financial entities						
Bonds	Fixed rate instruments	Colones		5,269	5.25% al 5.32%	2021
Bonds	Variable rate instruments	Colones		950	4.77% - 6.08%	2021
Investment certificates	Fixed rate instruments	US dollars		611	10.38%	2021
				102,968		
At fair value through profit or loss						
Public financial entities						
Bonds	Variable rate instruments	Colones		23,423	0.32% - 0.89%	2021
Bonds	Variable rate instruments	US dollars		783	7.18% - 7.93%	2021
				24,206		
			¢	212,416		

(Continued)

(In millions of colones)

Note 10. Financial debt

The reconciliation of the opening with the closing balances of the total financial debt is as follows:

		Liabilities			
		Bonds payable	Loans payable	Lease liabilities	Total
Balance as of January 1, 2021	¢	1,100,880	1,567,211	414,344	3,082,435
New loans		4,814	44,111	3,735	52,660
Amortization		(444)	(69,872)	(27,772)	(98,088)
Effect of exchange rate fluctuations		6,058	(3,254)	2,383	5,187
Balance as of June 30, 2021	¢	1,111,308	1,538,196	392,690	3,042,194

The characteristics of the financial debt are as follows:

	Currency	Annual interest rate	Maturity
Bonds issue	¢	Variable rate from 5.15% to 6.82% and fixed rate of 7.56%	2021-2033
	US$	Variable rate of 10.71% and fixed rate from 6.38% to 7.65%	2021-2043
	¢	Variable rate from 5.80% to 9.70% and fixed rate from 7.51% to 7.91%	2022-2045
Loans payable	US$	Variable rate from 1.21% to 10.71% and fixed rate from 0.70% to 6.40%	2021-2044
	JPY	Fixed rate from 0.60% to 2.20%	2026-2057
Lease liabilities	¢	From 14.53% to 15.57%	2021-2023
	US$	From 4.90% to 23.14%	2021-2033

As of June 30, 2021, ICE was not in compliance with one of the covenants from Clause 4.06 in reference to the loan agreements IDB 2747/OC-CR and 3589/OC-CR, between ICE and the Interamerican Development Bank (IDB), dated October 31, 2012, which requires ICE to maintain an internal cash generation to debt services ratio greater than 1.5:1. On June 29, 2021, ICE received a waiver from IBD in connection with such non-compliance, for a 12-month period beginning on June 30, 2021.

(Continued)

(In millions of colones)

Note 11. Employee benefits

Employee benefits are as follows:

		As of June 30, 2021			As of December 31, 2020		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits (1)	¢	76,642	8,538	85,180	73,164	13,130	86,294
ICE Guarantee and Savings Fund:							
Employer contribution (2)		372,694	48,285	420,980	363,493	39,219	402,712
ICE employer obligations:							
Vacations		-	23,618	23,618	-	22,575	22,575
Back-to-school bonus (3)		-	10,222	10,222	-	20,626	20,626
Statutory Christmas bonus (4)		-	13,246	13,246	-	1,717	1,717
Third and fifth biweekly salary		-	628	628	-	606	606
Occupational hazard insurance		-	97	97	-	213	213
	¢	449,336	104,634	553,970	436,657	98,086	534,743

(Continued)

(In millions of colones)

As of June 30, 2021, the main transactions in the employee benefits account are described as follows:

(1) Net decrease of ¢1,114 in severance benefits arising from increases in the accrual of this liability during the period of ¢9,889 (of which an amount of ¢9,123 related to the payroll of permanent employees), net of a decrease in the accrual in the amount of ¢11,003, which includes ¢7,950 due to payments corresponding to voluntary labor mobility.

(2) Increase due to ICE's contribution to the Guarantee and Savings Fund in the amount of ¢18,268.

(3) Net decrease of ¢10,404 corresponding to ¢21,994 and ¢11,590 for the payment of the back-to-school bonus and increases in the accrual of that benefit, respectively.

(4) Recording of the accrual for the Christmas bonus to be paid in December in the amount of ¢11,709, net of a decrease due to payments in the amount of ¢180.

Note 12. Provisions

Litigation

As of June 30, 2021, a provision in the amount of ¢633 is recognized, corresponding to a lawsuit involving the subsidiary RACSA and the Municipality of San José. The latter seeks the collection of a patent tax from prior years.

Note 13. Revenue

a) Revenue streams

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

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

		For the six months ended June 30,	
		2021	2020
Electricity services	¢	368,785	413,304
Telecom services		287,543	286,939
		656,328	700,243
Other income:			
Engineering services		3,287	3,026
Construction services		2,854	2,997
Infrastructure operation and maintenance services		1,018	896
		7,159	6,919
	¢	663,487	707,162

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Notes to the Condensed Consolidated Interim Financial Statements
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b) *Disaggregation of revenue from contracts with customers*

In the following table, revenue from contracts with customers related to electricity and telecom services is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with Grupo ICE’s reportable segments (see Note 17).

		Electricity Segment		Telecom Segment		Total	
		For the six months ended June 30,					
		2021	2020	2021	2020	2021	2020
Geographical markets:							
Local	¢	356,087	409,122	286,197	286,266	642,285	695,388
Foreign		12,698	4,182	1,346	673	14,044	4,855
	¢	368,785	413,304	287,543	286,939	656,328	700,243
Products/lines of service:							
Electricity	¢	320,845	362,579	-	-	320,845	362,579
Transmission charges		32,189	31,582	-	-	32,189	31,582
Public lighting		9,419	11,730	-	-	9,419	11,730
Management and other services		6,332	7,413	-	-	6,332	7,413
Telecom		-	-	287,543	286,939	287,543	286,939
	¢	368,785	413,304	287,543	286,939	656,328	700,243
Timing of revenue recognition:							
Services transferred over time	¢	368,785	413,304	248,254	257,988	617,039	671,292
Products transferred at a point in time		-	-	39,289	28,951	39,289	28,951
		368,785	413,304	287,543	286,939	656,328	700,243
Other income		7.159	6,919	-	-	7,159	6,919
	¢	375,944	420,223	287,543	286,939	663,487	707,162

(Continued)

(In millions of colones)

c) *Contract balances*

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

		As of June 30, 2021	As of December 31, 2020
Trade receivables	¢	192,978	175,829
Contract liabilities	¢	(78,058)	(75,403)

An amount of ¢5,129 included in contract liabilities as of December 31, 2020 has been recognized as revenue in the six months ended June 30, 2021 (2020: ¢3,985).

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

(1) Prepaid mobile services:

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

(2) Postpaid services:

Postpaid services correspond to prepaid income related to fixed and mobile services. Income from postpaid mobile services is recognized in the consolidated statement of financial position when the money is received by Grupo ICE from customers and wholesalers, and it is recognized in the consolidated statement of profit or loss as the end users use up the services.

(3) Security deposits:

For the Electricity Segment, security deposits are related to the charge made to customers, equivalent to one month's electricity billing, to guarantee payment of the service. For the Telecom Segment, security deposits are related to deposits requested from customers to guarantee the rendering of services, for mobile telephony, fixed telephony and roaming.

d) *Seasonality of operations*

For the Electricity Segment, the generation of electric energy may be affected by the availability of renewable sources (except for geothermal energy), which depends on the climate conditions during the year. Therefore, the sale of electric energy derived from water resources and wind power generation may be affected by seasonal elements. Water is the main source used for the generation of electricity in Costa Rica and availability depends on the season (dry or rainy). With sufficient water during the rainy season, ICE ensures the supply of stable energy during the dry season. The more water available the less the probability of using thermal resources to generate electricity. Also, the generation system is favored when summer is not so marked and warm.

For the Telecom Segment, there are no relevant factors that generate a cyclical or seasonal behavior of revenue, even though usually a growth is evidenced in sales associated with holidays (Father’s Day, Mother’s Day and Christmas).

Note 14. IFRS reconciliation for interim period ended June 30, 2020

Grupo ICE adopted IFRS in 2020 and as of that date, issued the first annual consolidated financial statements under IFRS. Since Grupo ICE issued consolidated interim financial statements under Grupo ICE’s Accounting Policies Manual as of June 30, 2020, and for the six months then ended (the comparative period), Grupo ICE decided to include this footnote to reconcile all IFRS impacts for that period. These are the first condensed consolidated interim financial statements of Grupo ICE prepared in conformity with International Financial Reporting Standards (IFRS).

In preparing the consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months ended June 30, 2020 under IFRS, Grupo ICE adjusted the amounts previously reported in these consolidated interim financial statements prepared according to Grupo ICE’s Accounting Policies Manual effective prior to the adoption date. An explanation of how the transition from the accounting framework used prior to IFRS has affected Grupo ICE’s financial performance for interim period ended June 30, 2020 is provided in the tables and notes provided below.

(Continued)

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		Previous accounting policies	Effect of transition to IFRS - June 30, 2020	IFRS
Revenue	¢	**700,243**	**-**	**700,243**
Operating costs:				
Operation and maintenance		239,400	8,667	248,067
Operation and maintenance of leased assets		39,110	(11,375)	27,735
Purchases and supplemental services		123,900	(50,936)	72,964
Costs of sale		-	28,178	28,178
Production management		39,782	-	39,782
Total operating costs		442,192	(25,466)	416,726
Gross profit		**258,051**	**25,466**	**283,517**
Other income		78,494	(61,310)	17,184
Operating expenses:				
Administrative expenses		70,019	400	70,419
Selling expenses		101,749	(37,019)	64,730
Preliminary studies		12,412	-	12,412
Supplemental expenses		860	-	860
Impairment loss on trade receivables		1,405	249	1,654
Other expenses		15,903	(2,298)	13,605
Total operating expenses		202,348	(38,668)	163,680
Operating income		**134,197**	**2,824**	**137,021**
Finance income and finance costs:				
Finance income		9,457	7,096	16,553
Finance costs		(96,490)	(36,201)	(132,691)
Foreign exchange differences, net		(47,300)	7,110	(40,190)
Net finance costs		**(134,333)**	**(21,996)**	**(156,328)**
Share of profit of equity-accounted investees		(33)	-	(33)
Net profit before tax		**(169)**	(19,171)	(19,340)
Income tax:		2,577	-	2,577
Net profit (loss) for the year	¢	**2,408**	**(19,171)**	**(16,763)**
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
(Loss) gain on fair value of cash flow hedges		(4,881)	(8,842)	(13,723)
		(4,881)	(8,842)	(13,723)
Other comprehensive income for the year, net of tax		**(4,881)**	**(8,842)**	**(13,723)**
Total comprehensive income for the year	¢	**(2,473)**	**(28,013)**	**(30,486)**
Profit attributable to:				
Owners of Grupo ICE	¢	2,381	(19,117)	(16,736)
Non-controlling interests		27	-	(27)
	¢	**2,408**	**(19,117)**	**(16,763)**
Total comprehensive income attributable to:				
Owners of Grupo ICE	¢	(2,473)	(27,986)	(30,459)
Non-controlling interests		-	(27)	(27)
	¢	**(2,473)**	**(28,013)**	**(30,486)**

(Continued)

(In millions of colones)

The adjustments for the transition to IFRS by account are as follows:

		Operating costs and expenses									*Finance income and finance costs*			
		Operation and maintenance	Operation and maintenance of leased assets	Purchases and supplemental services	Costs of sale	Other income	Administrative expenses	Selling expenses	Impairment loss on trade receivables	Other expenses	Finance income	Finance costs	Foreign exchange differences, net	Net loss for the year
Balances as of June 30, 2020, according to the previous accounting policies	¢	239,400	39,110	123,900	-	(78,494)	70,019	101,749	1,405	15,903	(9,457)	96,490	47,300	2,408
Adjustments due to the implementation of IFRS														
Changes in accounting policies:														
Deferred cost of terminals (1)		-	-	-	28,178	-	-	(37,019)	-	-	-	-	-	(8,841)
Leases (2)		8,044	(8,823)	(50,936)	-	61,310	(4)	-	-	-	-	29,136	(8,606)	30,121
Special purpose vehicles (Trusts) (3)		623	(2,552)	-	-	-	404	-	-	-	(1,028)	1,247	1,496	190
Guarantee and Savings Fund (4)		-	-	-	-	-	-	-	249	(2,298)	(6,068)	5,818	-	(2,299)
Correction of prior-period errors:														
Total adjustments due to the implementation of IFRS		8,667	(11,375)	(50,936)	28,178	61,310	400	(37,019)	249	(2,298)	(7,096)	36,201	(7,110)	(19,171)
Total as of June 30, 2020, restated	¢	248,067	27,735	72,964	28,178	(17,184)	70,419	64,730	1,654	13,605	(16,553)	132,691	40,190	(16,763)

(1) Deferred cost of terminals:

Previously, Grupo ICE recorded the cost of mobile terminals sold, gifted or subsidized as "prepaid expenses" and the cost was deferred over the term of the related contract in the consolidated statement of profit or loss. With the adoption of IFRS 15, the cost of those terminals or devices that was being deferred was recognized as a cost of sales in the same period in which the sale was made and ownership of the asset was transferred to the customer.

Grupo ICE's prepaid expenses decreased as of June 30, 2020 and the cost of sales was adjusted for the six months then ended as a result of the cost of mobile terminals sold that had been booked as prepaid expenses in Grupo ICE's statement of financial position as of June 30, 2020.

Furthermore, Grupo ICE followed the policy of presenting the cost of terminals sold as a selling expense under operating costs in the consolidated statement of profit or loss. With the adoption of IFRS, the cost of terminals sold was reclassified to costs of sale under operating costs in the consolidated statement of profit or loss. The effect of this reclassification from selling expenses to costs of sale in profit or loss for the six months ended June 30, 2020 amounted to ¢37,019. The effect of this reclassification, along with the adjustment indicated in the previous paragraph, resulted in the recognition of costs of sale in the amount of ¢28,178.

(2) Leases

Grupo ICE applied IFRS 16 *Leases* from January 1, 2019, using the modified retrospective approach. ICE assessed whether the contract is or contains a lease based on the definition of a lease set forth in IFRS 16. At the time of transition to IFRS, Grupo ICE applied IFRS 16 to contracts that had not been previously identified as leases prior to the transition date, which were reassessed to determine whether they contained a lease according to IFRS 16. Consequently, the definition of a lease under IFRS 16 was applied to contracts made or modified prior to January 1, 2019.

As a lessor, Grupo ICE previously classified leases as operating leases or finance leases depending on its assessment of whether the lease significantly transferred all of the risks and rewards of ownership of the underlying asset to Grupo ICE, based on the accounting policies in effect prior to the transition date. With the adoption of IFRS, Grupo ICE recognized right-of-use assets and lease liabilities for most leases.

Previously, Grupo ICE classified the leases of most commercial spaces, tower spaces and telecom equipment as operating leases, according to the accounting policies in effect prior to the transition to IFRS. Grupo ICE also recognized the lease installment of some power plants as operating lease expenses in the statement of profit or loss, without affecting property, plant and equipment. At the time of transition, for these leases, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the implicit rate in the case of power plants and some minor leases such as vehicles and equipment. For leases such as commercial spaces, the incremental borrowing rate as of January 1, 2019 was used.

As a result of the implementation of IFRS, right-of-use assets (in property, plant and equipment) and lease liabilities were recognized at the transition date. The effect of this implementation in profit or loss for the six months ended as of June 30, 2020 is reflected in the "leases" line item.

Grupo ICE used the following practical expedients in the application of IFRS 16 to leases previously classified as operating leases pursuant to the accounting policies in effect before the transition. Specifically, Grupo ICE:

– did not recognize right-of-use assets or lease liabilities for leases with terms ending within 12 months from the date of initial application;
– did not recognize right-of-use assets or lease liabilities for leases of low-value items. Low value corresponds to US$10,000 or its equivalent in colones at the date of initial transition.

(3) Special purpose vehicles (trusts)

Prior to December 31, 2020 and prior to the implementation of IFRS, those trusts with which Grupo ICE subscribed agreements for the construction and lease of assets were considered off-balance sheet and were recognized in conformity with the lease agreements with those entities and Grupo ICE's accounting policies, either as finance leases or operating leases.

As a result of the implementation of IFRS, ICE concluded that from the perspective of IFRS 10 *Consolidated Financial Statements*, it had control of those special purpose vehicles since it is exposed to or has rights to variable returns generated by those vehicles and it also has the ability to affect those returns through its power over the entity, given that Grupo ICE is the trustor. Consequently, trust assets and liabilities were included in the financial figures of Grupo ICE.

Due to the foregoing, the figures previously reported for the six months ended June 30, 2020 were modified due to the incorporation of those special purpose vehicles in the financial figures of Grupo ICE. This resulted in the elimination of lease liabilities for contracts previously classified as finance leases and in the elimination of lease installments for operating leases, and the recognition of trust assets and liabilities in the financial statements of Grupo ICE. The effect of this implementation for the six months ended June 30, 2020 is reflected in the line item "Incorporation of special purpose vehicles".

The agreements that had been classified as finance leases under Grupo ICE's accounting policies prior to the transition date included the lease of a commercial space and leases of some power plants and telecom equipment. The carrying amounts of the right-of-use asset and the lease liability as of January 1, 2019, were determined based on the carrying amount of the lease assets and lease liabilities under Grupo ICE's accounting policy prior to that date.

In 2006, Grupo ICE established a joint arrangement (Toro III Hydroelectric Project Trust) through a business alliance with a public entity (JASEC) for the construction and operation of a hydroelectric plant, whereby it subscribed a trust and construction agreement, as well as a lease agreement. With the implementation of IFRS, it was determined that this investment met the definition of a joint operation, given that: a) the contractual agreement grants both Grupo ICE and its counterparty joint control over the agreement, b) there is equal participation (50%) in the rights, obligations, income and expenses, as well as in the decision-making regarding the activities relevant to the entity, and c) no investor individually controls the entity in which ownership is held (the trust).

Prior to the adoption of IFRS, Grupo ICE measured the value of this investment at cost according to the accounting policies in effect until January 1, 2019. With the adoption of IFRS, Grupo ICE applied IFRS 11 *Joint Arrangements* to book the operation in its financial statements, and it proportionally consolidated the entity's financial statements, reversing the equity investment in the trust in the amount of ¢11,203 and incorporating in its financial statements 50% of the assets and liabilities, income and expenses generated by the agreement.

(4) Guarantee and Savings Fund

The Guarantee and Savings Fund manages the contributions made by Grupo ICE and by its employees to the Guarantee and Savings Fund (regime) and the Supplemental Pension Fund. In conformity with the accounting policies of Grupo ICE effective until January 1, 2019, the Guarantee and Savings Fund was considered a separate vehicle and Grupo ICE recognized in its financial statements only an assets and liabilities account for the total value of the economic contributions made to both funds. With the adoption of IFRS, and since in its conformity with the law for the creation of ICE the assets and liabilities of the Guarantee and Savings Fund belong to Grupo ICE, it integrated that fund in its financial statements, recognizing the fund's assets and liabilities. The effect of implementation for the six months ended June 30, 2020 is reflected in the adjustments due to implementation of IFRS, in the line item "Guarantee and Savings Fund".

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(In millions of colones)

Note 15. 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.

			June 30, 2021									
			Carrying amount						Fair value			
	Note		Fair value - hedging instruments	FVCORI – Debt and equity instruments	Financial assets at amortized cost	Financial assets at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Equity investments		¢	-	6,202	-	-	-	6,202	-	-	6,202	6,202
Notes and other receivables, net			-	-	236,805	-	-	236,805	-	-	-	-
Investments in financial instruments	7, 9		-	373,514	78,476	23,317	-	475,307	-	396,831	-	396,831
Investments in financial instruments	12		-	282,450	-	12,247	-	294,697	-	294,697	-	294,697
Temporary investments	14		-	91,064	78,476	11,070	-	180,610	-	102,134	-	102,134
Trade receivables, net			-	-	192,978	-	-	192,978	-	-	-	-
Cash and cash equivalents			-	-	400,115	-	-	400,115	-	-	-	-
		¢	-	379,716	908,374	23,317	-	1,311,407	-	396,831	6,202	403,033
Financial liabilities												
Financial debt	10	¢	-	-	-	-	2,649,504	2,649,504	-	2,662,711	-	2,662,711
Accounts payable			-	-	-	-	280,375	280,375	-	-	-	-
Derivative financial instruments			3,877	-	-	-	-	3,877	-	3,877	-	3,877
		¢	3,877	-	-	-	2,929,879	2,933,756	-	2,666,588	-	2,666,588

			December 31, 2020									
			Carrying amount						Fair value			
			Fair value - hedging instruments	FVCORI – Debt and equity instruments	Financial assets at amortized cost	Financial assets at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Equity investments		¢	-	6,202	-	-	-	6,202	-	-	6,202	6,202
Notes and other receivables, net				-	240,148	-	-	240,148	-	-	-	-
Investments in financial instruments	7, 9		-	356,950	85,242	36,969	-	479,161	-	393,919	-	393,919
Trade receivables, net			-	-	175,829	-	-	175,829	-	-	-	-
Cash and cash equivalents			-	-	311,743	-	-	311,743	-	-	-	-
		¢	-	363,152	812,962	36,969	-	1,213,083	-	393,919	6,202	400,121
Financial liabilities												
Financial debt	10	¢	-	-	-	-	2,668,091	2,668,091	-	2,609,874	-	2,609,874
Accounts payable			-	-	-	-	282,772	282,772	-	-	-	-
Derivative financial instruments			2,491	-	-	-	-	2,491	-	2,491	-	2,491
		¢	2,491	-	-	-	2,950,863	2,953,354	-	2,612,365	-	2,612,365

Fair value of financial instruments

As of June 30, 2021, Grupo ICE has no transfers between levels in the fair value hierarchy.

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

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

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

ii. *Equity investments*

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

iii. *Investments in financial instruments*

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

iv. *Derivative financial instruments – cash flow hedges*

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

(Continued)

(In millions of colones)

v. *Debt*

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

To determine the fair value of the long-term debt as of June 30, 2021, a discount rate was used of between 4.27% and 7.87% in colones and between 1.14% and 10.69% in US dollars, which is the rate available for Grupo ICE.

i) *Credit risk*

Grupo ICE’s strategy is to monitor the levels of recovery of trade receivables, non-trade receivables and notes receivable through collection procedures in different stages (text messaging, online collection process through agreements with external collection agents and bank entities, or Grupo ICE’s internal collection over the counter). Moreover, Grupo ICE has entities in charge of collection from clients as part of its efforts to mitigate arrears.

Movement in the allowance for impairment of trade receivables, non-trade receivables and notes receivable during the six months ended June 30, 2021 is as follows:

		As of June 30, 2021			
		Trade receivables	Non-trade receivables	Notes receivable	Total
Opening balance	¢	47,653	1,423	3,874	52,950
Use of allowance		(1,742)	(448)	(481)	(2,671)
Impairment losses and adjustments to the allowance		638	(487)	76	227
	¢	46,549	488	3,469	50,506

The low increase allowance for impairment is due to the slight increase in trade receivables and the decrease in loans and non-trade receivables as of the June 30, 2021 cutoff. The methodology used to calculate this allowance is the same as that described in the last annual consolidated financial statements.

ii) *Impairment of other financial assets*

During the six months ended June 30, 2021, Grupo ICE recognized impairment in the amount of ¢2,739 related to the financial assets valued at amortized cost. Impairment is included in finance costs in the statement of profit or loss.

iii) *Interest rate benchmark reform and related risks*

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). There is uncertainty as to the transition methods of the market in general.

On March 5, 2021, the Financial Conduct Authority ("FCA"), which has oversight of the US dollar LIBOR administrator, announced that 1-week and 2-month LIBOR will no longer be published as of December 31, 2021, after which LIBOR rates will no longer be available. The same will occur for other LIBOR settings starting 30, 2023.

Grupo ICE has exposures to IBORs, specifically LIBOR (London Interbank Offered Rate), on its financial instruments that will be reformed or replaced as part of these market-wide initiatives. The Group plans to finish the process of amending contractual terms or implementing appropriate fallback provisions in response to IBOR reform in the medium term.

At the institutional level, the Group anticipates that IBOR reform will impact its risk management processes and hedge accounting. The main risks to which Grupo ICE is exposed as a result of IBOR reform are operational. For example, renegotiating borrowing contracts through bilateral negotiation with counterparties, implementing new fallback clauses with its derivative counterparties, updating contractual terms and revising operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of existing IBOR (referred to as an "unreformed contract").

Finance Management monitors and manages Grupo ICE's transition to alternative rates. It evaluates the extent to which contracts reference LIBOR cash flows, whether such contracts will need to be amended as a result of LIBOR reform and how to manage communication about LIBOR reform to counterparties.

IFRS 7 requires companies to disclose quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as of the reporting date, showing separately non-derivative financial assets, non-derivative financial liabilities and derivatives. The standard is not specific about what quantitative information should be disclosed.

The following table shows the total amounts of unreformed contracts of Grupo ICE and those with appropriate fallback language as of June 30, 2021 and as of December 31, 2020. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

	USD LIBOR	
In millions of USD	Total amount of unreformed contracts	Amount with an adequate allowance clause
June 30, 2021		
Financial assets		
Corporate bonds	-	-
Financial liabilities		
Bank loans	691	691
Derivatives		
Variation in interest rates	36	36
December 31, 2020		
Financial assets		
Corporate bonds	-	-
Financial liabilities		
Bank loans	724	724
Derivatives		
Variation in interest rates	43	43

Note 16. <u>Contingencies</u>

As of June 30, 2021, Grupo ICE is a defendant in various lawsuits estimated in the amount of ¢287,944 (December 31, 2020: ¢71,071).

As of June 30, 2021, the total amount provisioned for those lawsuits is ¢6,027 (December 31, 2020: ¢8,204).

One of the provisions included in the consolidated financial statements corresponds to ordinary proceedings filed by RANGE for failure by the contractor Huawei to comply with the quality of the fiber optic cable, which had deformations that do not comply with the terms of reference of the established bid. As of December 31, 2020, the ordinary proceedings are underway and, based on the opinion of the legal counsel, Grupo ICE has provisioned an amount of ¢4,668 (see Note 22). As indicated in Note 12, during the first semester of 2021, a decrease of ¢2,662 was booked in this provision due to the agreement reached by the parties, whereby as the sites are successfully delivered acceptance documents will be generated and the corresponding payments made. Furthermore, as indicated in Note 12, as of June 30, 2021, Grupo ICE recognized a provision of ¢633 corresponding to the claim between RACSA and the Municipality of San José, whereby the latter seeks to charge municipal license tax corresponding to previous years.

For contingent liabilities, the most substantive change with regard to the status disclosed in the annual consolidated financial statements as of December 31, 2020, concerns the claim filed by P.H. Chucás S.A., for which an estimate of the lawsuit amount was made. A description of the claim is provided below:

The Chucás Hydroelectric Power Plant is a hydroelectric project located between the cantons of Mora and Atenas, in the provinces of San José and Alajuela, respectively. Its construction began in 2011, and the beginning of operations was scheduled for September 2014; however, due to delays in the construction process, the hydroelectric power plant was ready to start operations until November 2016. As a result of this delay, and in accordance with the power purchase agreement subscribed with that entity on February 3, 2011, ICE processed a fine in the amount of US$9.4 million (¢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 Grupo ICE was not entitled to a fine since the delay was caused by force majeure events. The alleged excess costs amount to US$173 million (the budgeted cost for construction was US$107 million, but the final cost reported to the arbitration tribunal was US$280 million). P.H. Chucás, S.A. considers that these excess costs were the result of unforeseeable factors such as geological and other factors. In November 2017, CICA issued an arbitration award in favor of P.H. Chucás, S.A., determining that Grupo ICE had to pay the amount of the alleged excess costs, professional fees, among others. Furthermore, the arbitration award indicated that ICE did not have the right to exercise the penalty clause (charging the aforementioned fine). The main argument of the arbitration tribunal was the obligation to pay the real cost or the real value of the power plant in order to restore the economic equilibrium of the agreement and to avoid the alleged unjust enrichment by Grupo ICE. The arbitration award required Grupo ICE to pay US$112.7 million and ¢6,328.

On December 15, 2017, Grupo ICE filed an appeal for annulment against 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 could have invoked its enforcement. However, in order to do so, P.H. Chucás, S.A. would have to file judicial proceedings for execution of judgment against Grupo ICE, to which ARESEP would necessarily be a party as regulator of the Electricity Segment and entity responsible for setting rates. This did not occur.

On June 27, 2019, the First Chamber of the Supreme Court of Justice upheld the appeal for annulment filed by Grupo ICE and annulled the arbitration award, so the payment obligation disappears.

On July 31, 2020, Grupo ICE received a notice from CICA, affiliated to AmCham, communicating a new arbitration requirement by P.H. Chucás, S.A.

On May 19, 2021, P. H. Chucás, S.A. formally filed for arbitration. ICE initially had 20 natural days to submit its answer to the complaint. However, the original term was extended until June 23 due to the complexity and size of the complaint, as well as the large amount of evidence to be gathered in ICE's defense, including documentation, expert opinions, testimonies and official translations.

On June 23, 2021, ICE filed the answer to the complaint as well as a preliminary objection of lack of jurisdiction. Because of this and of the possibility to approach the First Chamber to decide whether the process shall continue through arbitration or begin in a judicial venue, it is not possible to determine an approximate date for the end of the case.

Since P.H. Chucás, S.A. filed the formal complaint against Grupo ICE on May 2021, Group ICE was able to estimate and disclose the amount of that litigation for a total of US$362 million (equivalent to ¢224,428), thus generating the main variation in the estimated litigation amount from December 2020 to June 2021. Prior to this date there was only a request for arbitration that was being challenged by ICE both through the arbitration and the judicial venues.

In the opinion of Grupo ICE's management and its legal counsel, based on the preliminary objection of lack of jurisdiction, to be heard and resolved by the First Chamber of the Supreme Court of Justice, this case is likely to be heard in the judicial venue and not arbitration. This would guarantee to ICE that the proceedings would be resolved by law and not equity, with a strong possibility that the legal ruling would be in favor of ICE; consequently, booking a provision is not considered necessary.

(In millions of colones)

Note 17. Balances and transactions with related parties

Grupo ICE is controlled indirectly by the public administration of the Government of Costa Rica. As part of its normal course of operations, Grupo ICE performs electric power distribution transactions, sale of telecommunications services and, to a lesser extent, sale of construction services to public administration related entities. The amounts for these services are not secured and are settled in cash. Maturities and payments occur under normal payment conditions.

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

		Receivable		Payable	
		As of June 30, 2021	As of December 31, 2020	As of June 30, 2021	As of December 31, 2020
Government entities	¢	55,291	46,866	9,426	10,201
Autonomous institutions		4,788	5,207	-	-
Other related parties		-	2,887	-	-
Empresa Propietaria de la Red, S.A.		1,960	2,022	-	-
	¢	62,039	56,982	9,426	10,201

As of June 30, 2021, bonuses and loans payable with State-owned financial entities amount to ¢505,295 and ¢651,624 (2020: ¢499,015 and ¢631,229), respectively.

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

	Note		As of June 30, 2021	As of December 31, 2020
Cash equivalents		¢	16,827	12,449
Investments in financial instruments	7-9		442,200	420,951
		¢	459,027	433,400

As of June 30, 2021, interest receivable on securities with State-owned financial entities amounts to ¢261 (2020: ¢594).

As of June 30, 2021, ownership interests in autonomous and non-governmental agencies amount to ¢7,341 (2020: ¢7,305).

(In millions of colones)

Compensation to key management personnel

Compensation to directors and other key management personnel for the six months ended June 30, 2021 and 2020, is as follows:

		For the six months ended June 30,	
		2021	2020
Short-term benefits	¢	3,079	2,809
Post-employment benefits		75	127
Other long-term benefits		129	190
Severance benefits		-	18
	¢	3,284	3,143

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 17. Segment information

(a) Basis for segmentation

Grupo ICE has the following reportable segments:

- Telecom Segment
- Electricity Segment

There are no differences from the last annual consolidated financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

(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.

(In millions of colones)

(c) Revenue and profit or loss by segment

Grupo ICE's revenue and profit or loss by reportable segment are as follows:

		For the six months ended June 30,					
		Electricity Segment		Telecom Segment		Total	
Segment profit or loss		2021	2020	2021	2020	2021	2020
External revenues	¢	368,785	413,304	287,543	286,939	656,328	700,243
Inter-segment revenue		3,169	3,914	1,269	1,460	4,438	5,374
	¢	371,954	417,218	288,812	288,399	660,766	705,617
Loss (profit), net	¢	(16,301)	(19,114)	6,702	2,351	(9,599)	(16,763)

External revenue by product is detailed in note 13.

(d) Assets and liabilities by segment

		Electricity Segment		Telecom Segment		Total	
Segment profit or loss		As of June 30, 2021	As of December 31, 2020	As of June 30, 2021	As of December 31, 2020	As of June 30, 2021	As of December 31, 2020
Assets	¢	5,386,648	5,439,076	1,431,384	1,404,455	6,818,032	6,843,531
Liabilities	¢	3,404,559	3,423,852	704,879	709,886	4,109,438	4,133,738

Grupo ICE has disclosed all of the above amounts for each reported segment as these amounts are reviewed regularly by the highest decision-making authority and are included in the valuation of the profit or loss for each segment.

Note 18. 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, 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.

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 business 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 2021 budget. Additionally, Grupo ICE has authorized lines of credit with several financial entities that can be used if necessary.

Note 19. Subsequent events

(a) Issue of G-series standardized bonds

In August and September of 2021, ICE issued standardized bonds in the local market through series G-1 and G-2, for which payment in cash or swaps with series A-1 are permitted.

(Continued)

On August 30, for series G-1, ¢7,426 were placed in cash, with an interest of 3.49% and maturing in October 2023. For series G-2, ¢41,583 were placed, with an interest of 5.20%, maturing in October 2025, of which ¢16,105 were swapped for series A-1 and ¢25,478 were placed in cash. The proceeds of these issues will be used for investment in works of the Electricity and Telecom Segments. In addition, if it is of interest to Corporate, they may be used to resolve the financing needs of the Subsidiaries, or to refinance debt and swap operations.

On September 3 another public issue was made; for series G-1, ¢3,499 were placed in cash, with an interest rate of 3.47%, while for series G-2 ¢10,114 were placed in cash, with an interest rate of 5.19%.

(b) Working Capital Loans

On September 15, 2021, a working capital credit line from Scotiabank was disbursed for an amount of ¢13,144 (US$21 million). Likewise, on September 16, 2021, two working capital credit lines were disbursed for a total amount of ¢31,294 (US$50 million), corresponding to ¢15,647 (US$25 million) from Bladex and ¢15,647 (US$25 million) from BNP Paribas, both for a period of 180 days. These credit lines were disbursed as a precautionary measure given the short-term period of the 6.95% senior notes due 2021 (the "2021 notes") will mature on November 10, 2021.

(c) Line of credit

On July 23, 2021 an uncommitted line of credit for an amount of up to US$100 million was approved by the Corporación Andina de Fomento (CAF) Board of Directors. It is valid for one year, renewable up to December 31, 2022, if so agreed with the entity. The applicable interest rate is 6-M LIBOR plus the applicable margin, payable semi-annually.

At Grupo ICE´s discretion, there is no obligation to use all or part of the available credit. The credit line granted does not include a commitment fee.

In September 2021, Grupo ICE obtained an approval from Banco de Costa Rica for a commercial loan in an aggregate amount of ¢81,000 million (US$130.59 million) (the “Banco de Costa Rica Loan”). Grupo ICE can only use proceeds from the Banco de Costa Rica Loan to repay a portion of the "2021 Notes".