CONSOLIDATED FINANCIAL STATEMENTS

Instituto Costarricense de Electricidad and Subsidiaries (Unaudited)

ICE GROUP
ICE
CNFL
RACSA
CRICSA
Gestión Cobro

March 2020
Financial Management

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

Consolidated Statement of Financial Position
(In millions of colones)

As of March 31, 2020 and December 31,2019

Assets	Note		2020 *(Unaudited)*	2019 (Audited)
Non-current assets:				
Property, plant and equipment, net	8	¢	4,946,893	4,949,308
Intangible assets, net	9		105,551	111,168
Equity investments	10		36,496	36,517
Notes and other accounts receivable, net	11		2,180	2,158
Investments in financial instruments	12		60,485	73,869
Guarantee and Savings Fund	13		222,896	222,645
Total non-current assets			5,374,501	5,395,665
Current assets:				
Inventories, net	14		83,298	86,687
Notes and other accounts receivable, net	11		67,087	66,586
Temporary investments	15		141,756	120,316
Restricted funds	16		2,182	1,978
Trade receivables, net	17		184,681	148,433
Prepaid expenses			25,731	39,861
Other assets			2,299	7,135
Cash and cash equivalents	18		267,977	203,412
Total current assets			775,011	674,408
Total assets		¢	6,149,512	6,070,073
Liabilities and equity				
Equity:				
Paid-in capital		¢	155	155
Other reserves			16,333	16,116
Restricted retained earnings from capitalization of shares in subsidiary			62,380	62,380
Actuarial losses			(12,213)	(12,213)
Income from investments in other companies			265	272
Valuation of non-derivative financial instruments and hedges			(5,567)	(3,813)
Retained earnings			310,953	310,109
Development reserve			2,380,369	2,378,255
Déficit, net			(30,804)	-
Equity attributable to owners of ICE			2,721,871	2,751,261
Non-controlling interests			5,585	5,585
Net equity		¢	2,727,456	2,756,846
Liabilities:				
Non-current liabilities:				
Securities payable	19(a)		1,100,030	1,090,118
Loans payable	19(b)		885,861	899,030
Finance lease obligations	19(c)		491,963	457,145
Employee benefits	20		73,989	72,037
Accounts payable	21		6,843	6,845
Prepaid income			8,779	8,959
Guarantee and Savings Fund	13		222,896	222,645
Deferred tax liability, net			100,322	100,319
Other provisions			32	413
Other liabilities	23		57,889	56,968
Total non-current liabilities			2,948,604	2,914,479
Current liabilities:				
Securities payable	19(a)		63,458	63,026
Loans payable	19(b)		111,690	87,129
Finance lease obligations	19(c)		21,273	20,110
Employee benefits	20		3,199	8,023
Accounts payable	21		169,766	122,362
Prepaid income	22		24,246	23,628
Accrued employer obligations payable	24		37,809	48,487
Accrued interest payable			29,184	14,713
Other provisions			2,791	1,443
Other liabilities	25		10,036	9,827
Total current liabilities		¢	473,452	398,748
Total liabilities			3,422,056	3,313,227
Total liabilities and equity		¢	6,149,512	6,070,073
Memoranda necounts	27		210,939	191,452

Preliminary translation
The notes on pages 1 to 163 are an integral part of these consolidated financial statements.

JUAN CARLOS PACHECO ROMERO (FIRMA) Firmado digitalmente por JUAN CARLOS PACHECO ROMERO (FIRMA) Fecha: 2020.07.29 20:01:24 -06'00'
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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 periods ended March 31, 2020 and 2019

	Note		2020 (*Unaudited*)	2019 (*Unaudited*)
Operating income:				
Electricity services		¢	213,628	204,481
Telecom services			150,005	153,130
Total operating income	28		363,633	357,611
Operating costs:				
Operation and maintenance			120,162	122,543
Operation and maintenance of leased equipment			19,217	33,151
Supplemental services and purchases			73,066	82,172
Production management			20,004	16,926
Technical service center			99	1,569
Total operating costs	29		232,548	256,361
Gross surplus			131,085	101,250
Other income	30		9,083	4,919
Operating expenses:				
Administrative			33,770	33,408
Selling			51,748	63,581
Preinvestment studies			6,134	7,974
Supplemental			525	243
Loss on impairment of trade receivables			980	1,076
Other expenses			8,349	8,024
Total operating expenses	29		101,506	114,306
Operating surplus			38,662	(8,137)
Finance income and finance costs:	31			
Investment income			5,730	5,165
Finance costs			(50,138)	(44,203)
Foreign exchange differences, net			(24,798)	35,484
Income from investments in other companies			(13)	14
Total finance income and finance costs			(69,219)	(3,540)
Net (deficit) surplus before income tax			(30,557)	(11,677)
Income tax:				
Current	34		(247)	(264)
Net surplus (deficit), net		¢	(30,804)	(11,941)
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Effect of actuarial (gains) losses for the year			-	(19)
Effect of eliminations of reciprocal transactions			2,647	2,401
Subtotal			2,647	2,382
Items that are or may be reclassified subsequently to profit or loss:				
Loss (gain) on fair value of cash flow hedges			(1,754)	7,624
Subtotal			(1,754)	7,624
Other comprehensive income			893	10,006
Total comprehensive income for the year		¢	(29,911)	(1,935)
Income for the year attributable to:				
Owners of ICE			(30,821)	(12,150)
Non-controlling interests			17	209
Total		¢	(30,804)	(11,941)
Total comprehensive income for the year attributable to:				
Owners of ICE			(29,911)	(1,935)
Total		¢	(29,911)	(1,935)

Preliminary translation
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JEIMY SANCHEZ UMAÑA (FIRMA)

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 period ended March 31, 2020
(With corresponding figures for 2019

			Other reserves													
	Note	Paid-in capital	Legal reserve	Project development reserve	Capital reserve	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	Net loss	Equity attributable to owners of ICE	Non-controlling interests	Net equity
Balance at January 1, 2018, previously reported		¢ 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		-	-	-	-	-	-	(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	-	-	-	-	-	-	-		-	-	-
Total comprehensive income for the year		-	(11,351)	-	12,717	1,366	-	-	(136)	-	(423)	-	-	807	10	817
Balance at December 31, 2019 (Audit)		¢ 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
Comprehensive income for the year:																
Surplus for the year		-	-	-	-	-	-	-	-	-	(17)	-	(30,804)	(30,821)	17	(30,804)
Other comprehensive income for the year:																
Effect of variation in eliminations of reciprocal transactions		-	-	-	-	-	-	-	-	-	533	2,114	-	2,647	-	2,647
Loss on investments at fair value through other comprehensive income		-	-	-	-	-	-	-	-	(1,754)	-	-	-	(1,754)	-	(1,754)
Total other comprehensive income for the year		-	-	-	-	-	-	-	-	(1,754)	516	2,114	(30,804)	(29,928)	17	(29,911)
Comprehensive income for the year:																
Profit (loss) on investments in other companies		-	-	-	-	-	-	-	(7)	-	-	-	-	(7)	-	(7)
Appropriation to legal reserve		-	-	-	217	217	-	-	-	-	-	-	-	217	-	217
Effect of eliminations by homologatións adjustments		-	-	-	-	-	-	-	-	-	(3,335)	-	-	(3,335)	(17)	(3,352)
Movements for the period		-	-	-	-	-	-	-	-	-	3,663	-	-	3,663	-	3,663
Total comprehensive income for the year		-	-	-	217	217	-	-	(7)	-	328	-	-	539	(17)	522
Balance at March 31, 2020		¢ 155	3,328	71	12,934	16,333	62,380	(12,213)	265	(5,567)	310,953	2,380,369	(30,804)	2,721,871	5,585	2,727,456

The notes on pages 1 to 163 are an integral part of these consolidated financial statements.

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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 three months March 31, 2020

	Note		2020 *(Unaudited)*	2019
Cash flows from operating activities:				
Profit (deficit) for the year		¢	(30,804)	(11,941)
Adjustments for:				
Depreciation	8		69,398	67,581
Finance costs			37,088	34,031
Severance benefits	20		5,673	5,856
Statutory Christmas bonus	24		5,156	5,241
Back-to-school bonus	24		3,754	4,599
Accrued vacation	24		4,630	4,722
Loss on impairment of trade receivables			998	1,241
Allowance for valuation of inventory	14		(461)	197
Expense on disposal of assets			1,656	2,709
Expense on disposal of contruction work in progress	8		56	-
Absorption of amortizable and intangible items	9		7,078	2,921
Net realizable value			867	-
Litigation Provision			57	(222)
Amortized cost			8,024	(1,324)
Foreign exchange differences	19 (d)		12,524	(31,140)
Loss on impaiment of trade receivables			(1,433)	7,393
Income tax			(39,546)	(23,175)
			84,716	68,688
Changes in:				
Trade receivables and other accounts receivable			(35,094)	(17,911)
Inventories			3,891	9,269
Other assets			18,762	14,749
Accounts payable			47,402	220,805
Severance benefits			(9,010)	-
Ligation and terminal provisions			-	(517)
Severance benefits			438	(1,434)
Obligaciones patronales			(30,052)	(23,339)
Other liabilities			1,595	3,884
Cash flows from operating activities			82,648	274,195
Interest paid			(23,058)	(20,852)
Interest received			36,854	19,580
Net cash from operating activities			96,445	272,922
Cash flows from investing activities				
Investments			14	18
Increase-term investments			(5,635)	(10,574)
Maturity of long-term investments			18,124	11,293
Additions to property, plant and equipment			(24,676)	(33,183)
Increase in intangible assets			(1,300)	(1,712)
Increase in temporary investments			(65,236)	(38,804)
Maturity in temporary investments			43,926	19,377
Net cash used in investing activities			(34,784)	(53,585)
Cash flows from financing activities:				
Amortization of securities payable	19 (d)		-	(20,255)
Increase in loans payable	19 (d)		20,051	50,714
Amortization of loans payable	19 (d)		(16,603)	(16,553)
Amortization of finance leases	19 (d)		(544)	(325)
Net cash (used) in financing activities			2,904	13,581
Net decrease in cash and cash equivalents			64,565	232,918
Cash and cash equivalents at beginning of year			203,412	138,655
Cash and cash equivalents at end of year	18	¢	267,977	371,573

Preliminary translation.

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Juan Carlos Pacheco Romero Head of the Finance Department	Hazel Cepeda Hodgson General Manager	Jeimy Sánchez Umaña Accounting Process Coordinator

Note 1. Reporting entity

The *Instituto Costarricense de Electricidad* [the Costa Rican Institute of Electricity, in English] and its Subsidiaries (hereinafter jointly referred to as "Grupo ICE"), is an autonomous entity that is part of the Costa Rican state that was organized under the laws of the Republic of Costa Rica through Executive Order No. 449 of April 8, 1949 and Act 3226 of October 22, 1963. Its main offices are located in Sabana Norte, district of Mata Redonda, in the city of San José.

Grupo ICE is a group of state-owned companies that includes the *Instituto Costarricense de Electricidad* (the parent and 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),* and *Gestión de Cobro Grupo ICE, S.A.,* all which are organized under Costa Rican laws. ICE is also the parent of other wholly owned entities that are not operating as of March 31, 2020.

Its main activity consists of developing electric power producing sources, including the supply of electricity and telecommunication services. Regarding its electric power activities, it is the holder of the exclusive right to generate, transmit and distribute electric energy in Costa Rica, where only a few exceptions exist, such as a limited number of private and municipal entities, as well as certain rural cooperatives. In relation to telecommunications, the Group is the holder of a concession to develop and promote telecommunication services in Costa Rica, offering a wide range of services to individuals, homeowners and companies, including landline and mobile phone services, and voice and data services. These landline services include, among others, traditional fixed telephony, public telephony, and internet and television access. Mobile services include voice and data services, both under prepaid and postpaid modes. This offer also includes value added services and content, security and backup services, and telephone network interconnections and submarine capacity linking.

Mobile telephony (prepaid and postpaid voice and data), fixed telephony (including dedicated lines), internet access, and public and international telephony services are all regulated by the Superintendency of Telecommunications [SUTEL, its Spanish acronym], while electric power services are directly regulated by the Public Services Regulation Authority [ARESEP, its Spanish acronym]. The following is a description of the main activities of the group's subsidiaries:

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

The *Compañía Nacional de Fuerza y Luz, S.A.* (from here on out referred to as "CNFL", its Spanish acronym), was organized under Act number 21, dated April 8, 1941. Its main activity is the distribution of electric power in the metropolitan area of San José, as well as some neighboring counties of the provinces of Alajuela, Heredia, and Cartago. CNFL has issued a series of debt securities in domestic currency and is therefore subject to the regulations that the CONASSIF [Spanish acronym for the "National Supervising Council of the Financial System"] and the SUGEVAL [Spanish acronym for the "General Superintendency of Securities"] establish.

(Continued)

- *Radiográfica Costarricense, S.A.*

Radiográfica Costarricense, S.A. (from here on out referred to as "RACSA", its Spanish acronym), was organized on July 27, 1964, with the main objectives of exploiting telecommunication services in Costa Rica, national connectivity and internet, international connectivity to transmit data and video, and provision of data center, information, and other services.

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

Compañía Radiográfica Internacional Costarricense, S.A. (from here on out referred to as "CRICSA") was established by means of Act 47, dated July 25, 1921, with the main objective of exploiting a wireless communications concession. This company has no active employees, as Grupo ICE provides accounting and administrative services to it.

- *Gestión de Cobro Grupo ICE, S.A.*

Gestión de Cobro Grupo ICE, S.A. was organized by means of agreement No. 6198 of the Board of Directors on October 31, 2016 and started operating in October of 2017. Its main activity consists of providing judicial and administrative collection proceeding services to ICE and its companies to collect outstanding balances from their commercial operations.

The activities of ICE and its subsidiaries are also regulated by the Office of the General Comptroller of the Republic, the General Superintendency of Securities [SUGEVAL, its Spanish acronym], the *Bolsa Nacional de Valores de Costa Rica, S.A.* [the National Stock Exchange], the Securities Market Regulating Act, the General Directorate of National Accounting of the Ministry of Finance, and the Ministry of the Environment and Energy [MINAE, its Spanish acronym].

Capital composition

In accordance with article 16 of its Organic Act, the capital of ICE is made up of the following:

- Government revenue that is legally allocated and granted to ICE;
- The fees that the State acquired from the Municipality of San José under the *Contrato de Tranvía* [the "Tram Agreement", in English].
- Any other property that the State transfers to ICE.

The country's hydraulic resources that have been or that are declared National Reserves, as well as all retained earnings stemming from any of the aforementioned.

Note 2. Basis of accounting

The attached consolidated financial statements were prepared in compliance with those accounting policies included in the "Handbook of Accounting Policies of Grupo ICE", and in compliance with other accounting criteria issued by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica, governing authority of the National Accounting Subsystem. Note 7 describes the most significant accounting policies of the company.

These consolidated financial statements were authorized for issuance by the Management of ICE on May 29, 2020.

Note 3. Basis of measurement

These consolidated financial statements were prepared using the historical cost basis, except for the following items that are measured using an alternative basis on each closing date.

Account/Line	**Basis of measurement**
Derivative financial instruments	Fair value
Non derivative financial instruments at fair value with changes in the statement of profit or loss	Fair value
Financial assets at fair value with changes in the statement of other comprehensive income	Fair value
Financial assets at amortized cost	Amortized cost
Inventories (mobile terminals)	Net realizable value
Financial liabilities	Amortized cost
Net liability resulting from defined benefits	Fair value

Note 4. Functional and presentation currency

These consolidated financial statements are expressed in Costa Rican colones (¢), legal tender of the Republic of Costa Rica, and functional currency of Grupo ICE.

All financial information in this document is presented in millions of colones and has been rounded up to the closest unit, except as otherwise stated.

Note 5. Use of judgments and estimates

The preparation of these financial statements required that the Management make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results could differ from such estimated amounts.

Relevant estimates and assumptions are reviewed on a regular basis. The effect of an estimate change is governed by what is stated in note 7 (b) (iii).

(i) *Judgments*

Information about judgments made to comply with accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements is described in the following notes:

- Note 8 (iii) - Costs of loans
- Note 27 - Term of lease: if the Group has reasonable assurance that it will exercise extension options.
- Note 31 - Management of institutional financial risk

(ii) *Assumptions and uncertainties in estimates*

As of March 31, 2020, the information on assumptions and uncertainties related to estimates that entail a significant risk of resulting in a material adjustment to the book value of assets and liabilities in the next financial year are included in the following notes:

- Note 14 - Measurement of estimates for obsolete inventory
- Notes 11 and 16 - Measurement of estimated credit losses expected by commercial debtors and assets of the agreement: key assumptions to determine the weighted average loss rate.
- Note 20 - Measurement of obligations for defined benefits - key actuarial assumptions.
  Note 32 - Recognition and measurement of contingencies and provisions - key assumptions related to the probability and magnitude of a disbursement of financial resources

(iii) *Measurement of fair values*

Some of the accounting policies and disclosures of Grupo ICE require the measurement of fair values of both financial and non-financial assets and liabilities.

When the fair value of an asset or liability is measured, Grupo ICE uses observable market data whenever possible. The fair values are classified in different levels within a fair value hierarchy that is based on input data used in the valuation techniques, as follows:

- Level 1 - observable, quoted prices (not adjusted) for identical assets or liabilities in active markets.
- Level 2 - input data differs from the quoted prices included in Level 1, that are observable either for the asset or liability, directly or indirectly.
- Level 3: data for the asset or liability that is not based on observable market data (unobservable input data).

If the input data variables used to measure the fair value of an asset or liability are classified in different levels of the fair value hierarchy, then the measurement of fair value is classified, as a whole, in the same level of the fair value hierarchy as the variable with the lowest ranking that is significant for the measurement of the asset or liability as a whole.

Grupo ICE recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period in which the change was reported to occur.

Note 31 "Institutional Financial Risk Management" includes additional information about the assumptions used to measure fair values.

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

Decree No. 35616-H of December 2, 2009, issued by the Ministry of Finance, established that public companies are to adopt International Financial Reporting Standards (IFRS) as of January 01, 2014. The Ministry of Finance thereafter established, by means of Decree No. 39665-H of March 08, 2016, that institutions that do not have accounting procedures based on the IFRS in place, are to take measures in order to prepare, approve and adapt their information systems to be able to apply the IFRS as of January 01, 2017. Notwithstanding the aforementioned, on August 3, 2016, and according to document DM-1559-2016, the Ministry of Finance notified ICE about the issuance of a guideline authorizing National Accounting to establish guidelines for entities that have not been able to complete their accounting treatments, so they can do so by undertaking to execute a plan of action, provided that any such plans have been executed by 2022.

In addition, by means of notice DCN-1609-2016, dated November 15, 2016, the General Directorate of National Accounting of the Ministry of Finance authorized ICE to issue its first IFRS compliant financial statements on the year ending on December 31, 2023.

On the other hand, the Ministry of Finance, through Executive Order No. 41039-H, dated February 1, 2018, published in the official newspaper, "La Gaceta", N°92 on May 2018, established a new term to bridge the existing IFRS gaps in the Costa Rican public sector. This order states that institutions that have gaps between their current accounting practices and the ones required by international standards must implement such rules by January 01, 2020.

Simultaneously to the definition of the term established in Order No. 41039-H to complete the implementation of the international reporting standards, the Attorney General's Office, by means of Order PGR-C-095-2018, dated May 9, 2018, issued a binding opinion as a response to an inquiry that was made by ICE in relation to the retroactive effect of these standards. This order established that, if any ongoing agreements that had been executed under other then-valid rules exist, such conditions cannot be adversely or negatively modified by Grupo ICE as a result of implementing the IFRS.

Therefore, lease agreements, BOT (Build, Operate and Transfer) agreements, and trusts existing as of the issuance of this consolidated financial statements shall continue in accordance with current accounting standards as of the signing of such agreements and until their termination. New agreements related to these topics, entered into as of January 1, 2020, are to be registered in compliance with the IFRS.

(Continued)

(in millions of colones)

As a result of such decrees issued by the Ministry of Finance, as of 2016, the ICE started a process to gradually adopt the IFRS, and started including in its accounting policies those changes required to adjust them to the technical requirements that such accounting standards establish.

This gradual adoption is documented by means of the issuance of accounting criteria that incorporate the technical requirements listed in the IFRS and that are being incorporated in the accounting policies, under the guidance and with the binding criteria of the Directorate of Accounting and Budgets, with the approval of the Corporate Services Management and in accordance to the action plan accepted by the General Directorate of National Accounting of the Ministry of Finance (see note 7). The ICE considered a study prepared by an external advisor throughout this gradual adoption process. This study determined the gaps that existed between the basis for accounting used by ICE and the valid IFRS as of 2015. As a result, and as of the date of these consolidated financial statements, the IFRS that have been considered in such implementation process are the following:

Reference standard	Name of standard	Start of implementation
IAS 8	Accounting policies, changes in accounting estimates and misstatements	2016
IAS 16	Property, plant, and equipment	2016
IAS 19	Employee benefits	2016
IAS 21	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 recognition	2017
IAS 23	Borrowing costs	2017
IAS 28	Investments in associates and joint ventures (not related to trusts)	2017
IAS 38	Intangible assets	2017
IFRS 3	Business combinations	2017
IFRS 7	Financial instruments: Disclosures	2017
IFRS 11	Joint arrangements (not related to trusts)	2017
IFRS 13	Measurement of fair values	2017
IFRS 9	Financial instruments	2019
IFRS 15	Revenue from contracts with customers	2019 & 2020

(Continued)

Gradual implementation of IFRS

The main objective of this gradual implementation is to adjust the accounting-financial process for the complete adoption of the IFRS. Hence, it should be interpreted that the aforementioned accounting standards have been used for such gradual change of the accounting process of assets, liabilities or transactions associated to these accounting standards, even though it does not have to do with the complete adoption of any of them, due to their direct or indirect relation with other IFRS and with those that are still not considered to be in such process of gradual adoption, as well as the fact that certain implementation cases fail to cover all transactions, assets or liabilities subject to the standard.

Note 7. Summary of significant accounting policies

The accounting policies described below have been consistently applied in the periods presented in the accompanying consolidated financial statements.

(a) Consolidation policies

(i) Business consolidation

The Grupo ICE recognizes a business consolidation whenever the purchaser, be it the *Instituto Costarricense de Electricidad* or any other entity of Grupo ICE, gains control over one or more already established businesses.

Grupo ICE accounts for each business consolidation by means of the acquisition method of accounting, which requires:

a. The identity card of the acquiring company;
b. Determination of the acquisition date;
c. Recognition and measurement of identified acquired assets, liabilities that are being incurred, and any non-controlling interest in the acquired entity; and
d. The recognition and measurement of goodwill or profit from a purchase in very favorable terms.

The Grupo ICE recognizes, as the date of acquisition, the date when it takes control of the acquired company, which is generally the date when the consideration is legally transferred, and it acquires the assets and takes on the liabilities of the acquired company. Nevertheless, the acquiring company can assume control on a date before or after the closing date. For example, the acquisition date shall predate the closing date if a written agreement requires that the acquiring company obtain control of the acquired company on a date before the closing date. Therefore, the acquired company shall consider all pertinent facts and circumstances to identify the date of acquisition.

On the date of acquisition, Grupo ICE, as the acquiring company, shall separately recognize goodwill, identified acquired assets, assumed liabilities and any other non-controlling interest in the acquired company. As the buying company, it has to measure the identifiable assets acquired, as well as the liabilities assumed, at their fair value as of the date of acquisition, and recognize goodwill on the date of acquisition, which represents the difference between the cost of acquisition and the fair value of the acquired entity. Goodwill is recognized as an intangible asset in the consolidated financial statements of Grupo ICE; it has an indefinite life, and is subject to an impairment analysis, pursuant to best practices.

(in millions of colones)

The transferred consideration in a business consolidation should be measured at its fair value, which is calculated by adding the fair values of the assets transferred to the acquiring company on the date of the acquisition, the liabilities incurred by the acquired company's previous owners, and the equity interest issued by the acquiring company.

Should a contingent consideration exist, as a result of events that, as of the date of the negotiation were uncertain, Grupo ICE must recognize, on the date of the acquisition, the fair value of the contingent consideration as part of the consideration transferred in exchange of the acquired company, and must classify it as a liability or as equity, based on the definition of equity instruments and financial liabilities included in the financial instruments reporting standards, if applicable.

(ii) *Subsidiaries*

The consolidated financial statements include accounts of the *Instituto Costarricense de Electricidad* (ICE) and subsidiaries, as detailed below:

		Ownership interest As of March, 31	
Subsidiaries	**Country**	**2020**	**2019**
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 companies controlled by the *Instituto Costarricense de Electricidad* (parent). The financial statements of the subsidiaries are included in the consolidated financial statements as of the date when the control starts and until the date it ends. Accounting policies of these subsidiaries have been changed whenever it has been necessary to standardize them with ICE's accounting policies, including corresponding accounting adjustments.

(iii) *Transactions written-off during the consolidation process*

Balances and transactions between related parties and any unrealized revenue or expense that arises out of any transactions between entities of Grupo ICE are written-off during the preparation of the consolidated financial statements.

(iv) *Investments in affiliates and joint ventures*

Grupo ICE recognizes investments in affiliates as those made in entities where it exerts significant influence, but does not control it, whenever it possesses, directly or indirectly, though one of its subsidiaries, 20% or more of the voting rights in such entity, unless it can be clearly proven that such influence does not exist.

Whenever Grupo ICE is part of a joint venture (business or operation), it will assess whether the agreement grants all, or some, of the parties, joint control of the agreement. All or part of the parties jointly control the agreement whenever they must act jointly to direct the activities that significantly affect the performance of the agreement (that is to say, the relevant activities).

When it is determined that all of the parties, or a group of them, jointly control the agreement, then joint control is deemed, provided the decisions about relevant activities require the unanimous consent of the parties that collectively control the agreement.

Grupo ICE records those investments classified as investments in affiliated and joint ventures using the equity method. The initial recognition of an investment in an affiliate or a joint venture shall be recorded at its cost, and its book value shall increase or decrease as an adjustment product of the consolidation of financial statements of Grupo ICE, to recognize the part of the investment of Grupo ICE in the year's results of the subsidiary, after the date of acquisition. The interest held by Grupo ICE in the year's results shall be recognized in the results of such year. Distributions received in the investee shall reduce the book value of the investment.

Grupo ICE in its consolidated financial statements shall interrupt the use of the equity method as of the date its investments stops being an affiliate or a joint venture and shall thereafter apply the corresponding policies.

If an affiliate or a joint venture applies accounting policies other than those adopted by Grupo ICE for transactions and other similar and relevant events that took place in similar circumstances, adjustments shall be made to the financial statements of the affiliate or joint venture that were sent to the Group and that the latter uses to apply the equity method in the consolidated financial statements, in order to bring the accounting policies of the affiliate or joint venture into alignment.

(b) General recording policies

(i) *Basic principles*

Grupo ICE records its transactions using the accrual basis, by means of which the effects of transactions and other events are recognized when they take place and not when money or a cash equivalent is received or paid.

All transactions and events are to be recorded in accounting books, using the criteria of opportunity and chronological order, in the consolidated financial statements of the corresponding periods.

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Grupo ICE's accounting period starts each year on January 01 and ends on December 31.

Those items that meet the following criteria are recognized in the group's consolidated financial statements:

- Any financial benefit linked to such item will most likely be received by or come from Grupo ICE.
- The item has a cost or value that can be accurately measured.

(ii) *Foreign currency transactions*

All foreign currency transactions executed by Grupo ICE are translated to the functional currency using the Costa Rican colón to US dollar (US$) exchange rate valid on the day of the transaction, pursuant to the exchange rate issued by the Costa Rican Central Bank for operations with the non-banking public sector. Exchange differences resulting from the application of this procedure are recognized in the results of the year when they occur.

Transactions in foreign currency are converted to the functional currency of Grupo ICE using the exchange rates valid on the dates of the transactions. Financial assets and liabilities in foreign currency as of the date of the report are translated back to the functional currency using the selling exchange rate established by the Costa Rican Bank for operations with the non-banking public sector.

(iii) *Changes to significant accounting policies, accounting estimates and prior period errors*

Grupo ICE shall change its policies only if:

a) This change were required by a best practice;
b) The policy change results in consolidated financial statements that provide more relevant and accurate information on the effects of transactions, other events or conditions that affect the financial position, results, or cash flows of the entity.

When a policy change is retroactively applied, the starting balances of each equity account for the oldest period included in the financial statements, disclosing information on the other comparative amounts for each prior period included. The retroactive application of an accounting policy change shall apply to prior periods and the comparative information shall be adjusted accordingly, unless determining the effects of the change in prior periods or the accrued total were impracticable.

Changes to estimates are those that result from changes to the effects or circumstances upon which the estimate is based, such as new information or gaining more experience and, therefore, a review of the estimate is required.

The effect of a change in the estimates shall be recognized in the profit or loss statement of the period in which the change took place, if it only affects such period, and also in future periods, if it also affects such periods.

(Continued)

Errors determined during the current period and that pertain to such period shall be corrected before the issuance of the consolidated financial statements is authorized. Material errors that originate during previous periods shall be corrected retroactively by in the consolidated financial statements of the period immediately subsequent to the one in which they were determined, by restating comparative information for the prior period or periods in which the error originated, as well as the starting balances of assets, liabilities and equity, for the oldest period included in the financial statements, in the event that the mistake originated during a period prior to that one. When it is impracticable to determine the accrued effects of an error that occurred in prior periods, comparative information shall be restated by correcting the mistake prospectively, as of the date when correcting such mistake is possible.

(iv) *Events that took place after the reporting period*

Grupo ICE recognizes and discloses favorable and unfavorable events as events that occur between the end of the reporting period and the date that the financial statements are authorized for issue. These can be identified as two types of events:

- An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period (events that occurred after the reporting period that require an adjustment); and
- An event after the reporting period that implies conditions that is indicative of a condition that arose after the end of the reporting period (events that occurred after the reporting period that require no adjustment).

In that sense, and in relation to events after the reporting period related to compliance with covenants and refinancing of debts, the Grupo ICE establishes that once an event of default occurs (whether or not of a financial nature) and no waiver has been issued before the closing date of the consolidated financial statements and such a waiver does not continue for at least the following 12 months, the balance of the corresponding debt has to be classified as short term. If Grupo ICE obtains a waiver in relation to such default on a date subsequent to the closing date of the consolidated financial statements, this should be disclosed given that it is considered material for the consolidated financial statements as a whole. Nevertheless, this event after the reporting period does not release Grupo ICE from classifying the entire debt as short-term (payable).

(c) Financial instruments:

(i) *Non-derivative financial instruments - recognition and derecognition*

Grupo ICE classifies non-derivative financial assets into the following categories: financial assets at amortized cost, financial assets at fair value with changes recognized in the statement of other comprehensive income, and financial assets at fair value with changes recognized in the statement of profit or loss.

Grupo ICE classifies non-derivative financial liabilities as other financial liabilities.

The Grupo ICE initially recognizes borrowings, accounts receivable and issued debt instruments on the date in which they originate. All other financial assets and financial liabilities are initially recognized on the date of the agreement under which Grupo ICE adopts the contractual provisions of the instrument.

Grupo ICE derecognizes financial assets when the contractual rights to the cash flows of the financial asset expire or whenever the contractual rights to receive such cash flows are transferred under a transaction that substantially conveys all rights and advantages of owning the financial asset, or otherwise does not substantially transfer or withholds all of the risks and advantages related to the property and does not withhold control over the transferred assets. Any interest held over such derecognized financial assets that is created or withheld by Grupo ICE is recognized as a separate asset or liability.

Grupo ICE derecognizes financial liabilities when its contractual obligations are paid or cancelled, or otherwise when these expire.

A financial asset and a financial liability shall be subject to compensation and, therefore, their net amounts shall only be included in the statement of financial position when Grupo ICE has, at such time, the lawful obligation to pay such recognized amounts and has the intention to settle the net amount, or otherwise to realize the asset and settle the liability at the same time.

(ii) *Non-derivative financial instruments - measurement*

Non-derivative financial assets are measured as follows:

Financial assets at amortized cost	These assets are initially measured at fair value, plus any other transaction costs directly attributable to them. They are subsequently measured at their amortized cost using the effective interest method, less any impairment caused by expected credit losses.
Financial assets at fair value with changes recorded in the statement of other comprehensive income	These assets are initially measured at fair value, plus any other transaction costs directly attributable to them. They are subsequently recognized as other comprehensive income and accrued as equity. When these assets are written-off, the accrued earnings classified as equity are reclassified as profit or loss. Estimated impairment losses are recognized as comprehensive income in the year in which these originate.
Financial assets at fair value with changes recorded in the statement of profit or loss	A financial asset is classified at fair value with changes recorded in the statement of profit or loss if it cannot be classified under any of the foregoing categories. Transaction costs directly attributable to it are recognized in the statement of profit or loss as they are incurred. They are subsequently measured at fair value and any changes thereto, including any dividend or interest income, are recognized in the statement of profit or loss.

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

A swap executed by a lender and a borrower, of debt instruments with substantially different conditions, shall be accounted for as the cancellation of the original financial liability, and a new financial liability shall be recognized. This shall also happen when the current conditions of a financial liability, or a part thereof, are substantially modified (notwithstanding if this is attributable or not to the debtor's financial troubles).

Grupo ICE recognizes in the profit or loss statement for the period the difference between the book value of a financial liability (or a part thereof) that has been settled or transferred to a third party and the consideration paid that shall include any transferred asset other than cash or the incurred liability.

Interest, dividends, and profit or loss related to a financial instrument or to any component thereof, that is a financial liability, are recognized as revenue or expenses in the profit or loss statement of the reporting period.

Financial assets - assessment of business model

Grupo ICE assesses the objective of the business model in which a financial asset is held, at portfolio level, as this is the level that best reflects the management of the business and how the related information is provided to the management. Information taken into account includes:

- Policies and objectives set for the portfolio and the actual operation of these policies once placed into practice. These include whether the strategy of the management is focused on collecting contractual interest revenue, maintaining a specific interest yield profile or coordinating the duration of the financial assets with that of the liabilities that such assets are funding or the expected outgoing cash flows; or the receipt of incoming cash flows by selling the assets;
- how the portfolio's performance is assessed and how this is reported to the key personnel of the management of Grupo ICE;
- the risks that affect the performance of the business model (and the financial assets held under such business model) and, specifically, the way that such risks are managed;
- how the business' managers are compensated (for example, if compensation is based on the fair value of the managed assets or on the contractual cash flows obtained); and
- the sales frequency, value and calendar during prior periods, the reasons behind such sales and the expectation about future sales.

Transfers of financial assets to third parties under transactions that do not qualify to be written-off are considered sales for these purposes, in accordance with the continuous recognition of assets employed by the Group.

The financial assets that are held for trade or that are managed, and whose performance is assessed on the basis of their fair value, are measured at fair value, and any changes thereto are recognized in the statement of profit or loss.

Financial assets - assessment of whether contractual cash flows are only principal and interest payments

For the purposes of this assessment, the principal is defined as the fair value of a financial asset upon initial recognition thereof. Interest is defined as the consideration for the time value of money and the credit risk associated to the pending principal payment during a specific time period and for other basic loan risks and costs (for example liquidity risk and administrative costs), as well as a profit margin.

When assessing whether contractual cash flows pertain only to principal and interest payments, Grupo ICE considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual condition that could change the schedule or sums of the contractual cash flows in a way that it would not meet this condition. Upon making this assessment, Grupo ICE considers:

- Contingent facts that would change the cash flow sums or schedule;
- Terms that could adjust the ratio of the contractual coupon, including variable rates;
- Prepayment and term extension conditions; and
- Terms that limit the right of Grupo ICE to the cash flows that come from specific assets (for example, non-recourse terms).

A prepayment condition is consistent with the criterion of only paying the principal and interest if the amount of the prepayment substantially represents the unpaid amounts of principal and interest accrued by the principal, which could include reasonable additional compensation given the early termination of the agreement. In addition, financial assets acquired with a discount or premium in relation to its nominal value, a feature that allows or requires the prepayment of an amount that substantially represents the nominal contractual value, plus (unpaid) accrued contractual interest (which can also include a reasonable additional compensation given the early termination), are considered to be in agreement with this criterion if the fair value of the prepayment feature is insignificant at the time of initial recognition.

Financial liabilities - classification, subsequent measurement and profit or loss

Financial liabilities are classified as measured at amortized cost or at fair value with changes recorded in the statement of profit or loss. A financial liability is classified at fair value with changes recorded in the statement of profit or loss if it is classified as held for trade, is a derivative or is designated as such at the time of initial recognition. Financial liabilities at fair value with changes recorded in the statement of profit or loss are measured at fair value and the net profit or loss, including any interest expense, is recognized in the profit or loss statement. The other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest income and profit or loss as a result of foreign currency translation are

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recognized in the profit or loss statement. Any profit or loss arising out of their derecognition is also recorded in the statement of profit or loss.

Value impairment

Non-derivative financial assets:

Financial instruments and assets under contract

Grupo ICE recognizes the impairment of financial assets (trade receivables and accounts receivable, notes receivable and stock investments) as follows:

- financial assets are measured at amortized cost;
- investments in financial instruments are measured at fair value and any changes are recorded as other comprehensive income; and
- assets under contract.

Grupo ICE measures the corrections of value as an amount equal to the expected credit losses during the lifetime of an asset, except for the following, which is measured as the amount of the expected credit losses for the coming twelve months:

- debt instruments that are determined to have a low credit risk as of the reporting date; and

- other debt instruments and banking balances for which the credit risk (that is to say, the risk that a default occurs during the expected lifetime of the financial instrument) has not increased significantly since initial recognition.

Value corrections resulting from trade receivables and assets under contract are always measured at an amount equal to the credit losses expected during their lifetimes.

To determine whether the credit risk of a financial asset has increased significantly as of its initial recognition when estimating expected credit losses, the ICE considers reasonable and sustainable information that is relevant and available without incurring in undue cost or effort. The foregoing includes information and quantitative and qualitative analysis, based on the Institute's historical experience, as well as an informed credit assessment that includes references to the future.

Grupo ICE assumes that the credit risk of a financial asset has increased significantly if the delinquency surpasses 30 days.

Grupo ICE considers that a financial asset is defaulting when:

- it is not likely that the debtor will service all of its credit obligations with Grupo ICE without the Group resorting to actions such as execution of the guarantee (if any); or
- if the financial asset has a delinquency of 90 or more days.

Expected credit losses during the lifetime of the asset are credit losses that result from all of the possible events of default during the expected lifetime of a financial instrument.

Expected credit losses for the coming 12 months are the portion of the credit losses expected during the lifetime of asset that precede the events of default of a financial instrument and that will possibly occur within the 12 months following the reporting date (or during a lesser period, if the instrument's life were under 12 months).

The maximum period considered upon estimating expected credit losses is the maximum contractual period during which Grupo ICE is exposed to the credit risk.

Measurement of expected credit losses

The measurement of expected credit losses is the weighted average with the probability of default as the weight. Credit losses are measured as the present value of any events of cash insufficiency (i.e. the difference between the cash flows owed to the entity under the agreement and the cash flows that Grupo ICE expects to receive).

Financial assets with credit impairment

On each reporting date, the Grupo ICE assesses whether the financial assets recorded at amortized cost and the debt instruments recorded at fair value with changes recorded in the statement of profit or loss have suffered any credit impairment. A financial asset is "credit impaired" when one or more events that have an adverse effect on the future estimated cash flows of the financial asset have occurred.

Evidence that a financial asset has suffered credit impairment includes the following observable data:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or delinquency event that exceeds 30 days;
- restructuring of a loan or a prepayment by ICE in terms it would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other type of financial reorganization; or
- the disappearance of an active market for the financial asset in question, due to financial difficulties.

Reporting of impairment estimates due to expected credit losses in the statement of financial position.

Corrections of values of financial assets measured at amortized cost are deducted from the gross book value of these assets.

In relation to debt instruments measured at fair value with changes recorded in the statement of other comprehensive income, corrections of values are recorded as profit or loss and recognized as other comprehensive income.

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Derecognition

The gross book value of a financial asset is derecognized when ICE has no reasonable expectation to recover the entirety or a part of the financial asset. As for individual clients, the policy is to punish the gross book value when the financial asset is declared as uncollectible, in accordance with Grupo ICE's policy to classify accounts as uncollectible and based on the group's historical experience to collect similar assets. Grupo ICE does not expect a significant recovery of amounts that have been derecognized. Nevertheless, financial assets that are derecognized could be subject to activities in order to comply with the Institute's procedures to collect any amounts owed.

Derivative financial instruments - hedge accounting

Grupo ICE holds derivative financial instruments to hedge its exposure to interest rate and currency exchange rate risks. The hedge relationships that Grupo ICE uses are fair value and cash flow hedges.

Grupo ICE records derivative financial instruments using hedge accounting, for which purpose it must comply with the requirements detailed in this policy. Failure to comply will prevent Grupo ICE from applying hedge accounting, even if it has contracted a derivative instrument to hedge a certain risk.

Fair value hedges:

If a fair value hedge is used during the reporting period, it will be accounted for as follows:

- The profit or loss resulting from measuring the fair value of the hedging instrument on a certain date, according to market conditions and the hedging instrument's conditions, is recognized in the profit or loss of the reporting period.
- The book value of the hedged item is adjusted for fair value changes attributable to the risk being hedged, and those fair value changes are recognized in the profit or loss. This applies even if the hedged item is measured at cost.

Grupo ICE shall prospectively interrupt its hedge accounting if the hedging instrument expires, is sold, settled, or enforced or otherwise stops fulfilling the requirements established for hedge accounting (for this purpose, the successive renewal or substitution of a hedging instrument with another is not construed as an expiration or settling if such a substitution or renewal is part of a documented hedging strategy and does not modify the risk management objective of the hedging relationship, as it does not interrupt hedge accounting). The policies specified upon designating and documenting the hedge relationship shall be in line with the objectives and procedures that Grupo ICE follows to manage risk and shall not be arbitrarily modified. In these cases, changes shall be justified on the basis of variations of market conditions and other factors, shall be based on, and aligned with the objectives and procedures that Grupo ICE follows to manage risk.

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Cash flow hedges:

When a cash flow hedge used during the reporting period fulfills the conditions established, the portion of the change in fair value of the hedging instrument that is determined to be an effective hedge shall be recognized in the other comprehensive income, and offset against a liability sub-account; and the ineffective portion of the change in fair value of the hedging instrument shall be recognized in the profit or loss.

When a derivative instrument is designated as a cash flow hedge instrument, the effective portion of the changes in fair value of the derivative instrument are recognized in the other comprehensive income and is accumulated in the hedging reserve. Any ineffective portion of the fair value changes of the derivative are immediately recognized in the profit or loss.

Grupo ICE shall prospectively interrupt its cash flow hedge accounting in any of the following scenarios:

- The hedging instrument expires or is sold, settled or enforced (for this purpose, the successive renewal or substitution of a hedging instrument with another is not construed as an expiration or settling if such a substitution or renewal is part of a documented hedging strategy and does not modify the risk management objective of the hedging relationship, as this does not interrupt hedge accounting). In these cases, the cumulative changes in fair value of the hedging instrument that have been recognized as equity from the inception of the hedge shall remain separate as equity until the foreseen transaction takes place.
- The coverage stops fulfilling the requirements established for hedge accounting. In these cases, the cumulative changes in fair value of the hedging instrument that have been recognized as equity from the inception of the hedge shall remain separate as equity until the foreseen transaction takes place.

It is not expected that the foreseen transaction occurs, in which case any cumulative changes in the fair value of the hedging instrument that were recognized in the equity since the inception of the hedge shall be restated in the consolidated statement of profit or loss as a reclassification adjustment; and the derivative instrument shall be settled, thus affecting the corresponding valuation accounts of the financial instrument, banks, profit or loss line in the profit or loss statement, as a result of disposing of the instrument.

(d) Policies for non-current assets

(i) Property, Plant, and Equipment

Operating assets and other operating assets

Recognition and measurement

The account "Operating assets and other operating assets" includes controlled goods that are of a permanent nature that are employed mainly in the production and supply of electricity and telecom services, the sale of which is not intended. Other operating assets include those used for the management and operations functions, the use of which is expected to last longer than one reporting period.

Operating assets are recorded at their cost of acquisition or construction, plus any other directly related costs necessary to have the asset in the required location and in the conditions that allow it to operate. Assets acquired before December 31, 2016 are recorded at their adjusted cost, which is a substitute of the historic cost plus the revaluation adjustment that was then being applied based on the use of a price index.

Operating assets are detailed in the accounting ledger at a significant component level. The accounting record of components is done according to the category level of the assets that has been assigned, in compliance with the characteristics of those assets in relation to mobility, volume and individual value. That way each component of the assets is recognized separately according to its nature and is depreciated separately based on the shorter between the useful life of the equipment and the useful life of the main asset.

Operating assets transferred to ICE after it executes purchase options under operating leases, completes lease agreements or trusts or BOT, valid as of December 31, 2019, are recorded according to the financial value of such assets on the date they were received and with their expected useful lives.

Additions, improvements or reconstructions should be assessed by the competent technical areas of Grupo ICE to determine whether these increase the useful life of the asset, for the purposes of recalculating their depreciation, or otherwise shall depreciate during the remainder of the corresponding asset's useful life.

Subsequent costs are capitalized only if it is probable that Grupo ICE will receive the future financial benefits associated with such costs. Additions, improvements, adaptation, reconstruction, and price readjustments are considered costs incurred after the acquisition or construction of the asset and, therefore, capitalizable, provided that any such costs are not classified as maintenance costs.

Assets in operation under financial leases

Recognition and measurement

Grupo ICE records tangible and intangible goods classified or categorized as financial leases under the terms of a lease agreement as "*Assets in operation under financial leases*".

Assets in operation under financial leases are recorded at the cost of acquisition or construction, plus any other related costs necessary to have the asset in required location and in the conditions that allow it to operate.

Assets in operation under financial leases that are received by Grupo ICE beforehand are recorded as such when Grupo ICE takes on the risks and benefits related to these assets and that, therefore, allow it to dispose of them as of such receipt and make it responsible for their custody and exploitation.

The cost of the assets in operation under financial leases received beforehand is recorded by computing the present value of each disbursal (receipt or delivery of the asset) at the time when they are received and ready to operate, as these assets are capitalized as of the moment that they are in the required location and have the conditions to be used as foreseen by the management, thus generating the corresponding depreciation expense as of that moment.

Computation of the present value is performed using the lease's implicit financing rate, provided that determining it is practicable or, otherwise, the interest rate that Grupo ICE defines for similar scenarios.

The implicit financial burden that is determined is charged each month, during the anticipated term, to the profit or loss, and is offset against a financial lease liability.

If an implicit financial burden is determined to be immaterial, the value of the asset and liability is attributed by cost-benefit at the moment it is received beforehand. This is something that is determined on a case by case basis to reach a conclusion that justifies the decision.

Depreciation

Elements of operating assets, except for terrains, are depreciated using the straight line method as of the moment that they are in the required location and with the conditions needed for their operation, based on their and their components' estimated useful life, when applicable. Other assets in operation, such as: construction equipment, transport equipment, machinery, and maintenance equipment used to provide services and execute projects of Grupo ICE and which depreciation does not pertain to a regular and uniform amount, but rather to a variable cost based on their use (hours, kilometers, or days), categorized as "machinery, equipment, and vehicles depreciable by their use", are depreciated using the usage-based depreciation method, as this accurately conveys the expected pattern of consumption of the future financial benefits incorporated into such assets. The method elected is uniformly applied throughout all periods unless a change occurs in the expected pattern of consumption of the future financial benefits.

The useful lives for each type of operating asset and their respective significant components must be defined by the technical areas of each sector.

To determine the useful lives of each depreciable asset or group of assets, the technical areas defined by each sector have to document the process executed to determine the useful life of each asset, for which purpose they must consider:

- The estimated time period during which the depreciable asset will be used for production purposes;
- Specifications from specialized technical personnel or an engineer of the useful life of the depreciable asset, if recently acquired;

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- Expectations from specialized technical personnel or an engineer in relation to the future use of the depreciable asset and the expected remaining useful life;
- Expected natural depreciation;
- Technical or commercial obsolescence derived from production changes or improvements, or otherwise from a change in the demand of products produced by the asset;
- Legal limits or restrictions for the use of the asset; and
- Any other events or developments that have an effect on the future use of the asset, such as regulatory changes that can reduce or render obsolete the existing plant and equipment in the foreseeable future.

Useful lives are reviewed at the closing of each reporting period in order to identify possible differences with those established on the date of review. In the event that the useful lives require any modification, according to the performed analysis, the change to the estimated useful lives should be performed with a prospective effect as of the date the difference is identified.

Operating assets and other operating assets that fulfill their assigned useful lives and continue being used in the normal operation of Grupo ICE shall remain in the Group's asset database to control them and to suspend the computation of their depreciation.

Each part of an element of a property, plant and equipment shall be depreciated separately when it:

- Has a significant cost in relation to the total cost of the element;
- Has a different benefit or consumption pattern or useful live;
- Requires regular, important capitalizable inspections. Each time a new inspection is performed, the previous component shall be written-off to recognize the current one (if a balance still exists)
- Pertains to a joint purchase of a terrain and building, as these are separate assets, whereby, properties have an unlimited useful life, save for a few exceptions, and therefore are not depreciated; buildings have a limited useful life and are therefore depreciated.
- Pertains to a terrain which cost includes decommissioning, transferring, and restoration costs; the restoration value shall be depreciated throughout the period in which the benefits for incurring in such costs are obtained.

Additions, improvements or reconstructions should be assessed by the competent technical areas of Grupo ICE to determine whether these increase the useful life of the asset, for the purposes of recalculating their depreciation, or otherwise shall depreciate during the remainder of the corresponding asset's useful life.

Depreciation of operating assets shall begin as of the date of acquisition or installation, when the asset is ready to use, that is to say, in the location and with the conditions necessary for the asset to be operated as the Grupo ICE requires.

The depreciation shall cease on the earliest between the date the asset is classified as held for sale and the date of derecognition. The depreciation shall not cease when the asset is not under use, unless completely depreciated or unless depreciated using the usage-based depreciation method.

The assets subject to financial leases shall be depreciated over their useful lives, as defined by Grupo ICE for assets that it owns, when acquisition of the asset on the date of expiration of the lease agreement is probable beyond reasonable doubt.

Depreciation of important spare parts and replacement equipment shall begin when these are in the place and with the conditions to be used; that is to say, when they are in the place and have the conditions necessary for them to operate as foreseen by Grupo ICE. As long as an asset is installed as one of the assets in operation, it has to use the lesser between the useful life of the equipment and the useful life of the main asset, assuming that the asset cannot be retrieved and used in another asset. If the asset in question will be replaced at the end of its useful life, and it is expected that the element can be used for the replacement equipment, then the longest of the useful lives can be used.

Work in progress

Grupo ICE records as "*Work in progress*" those goods that are under construction and that it expects to incorporate to its operating activities and to use in administrative or support activities for the production and supply of electricity and telecom services.

Work in progress is registered at the cost of construction (price of acquisition of materials, parts, etc.), plus any other costs related to their development, provided that the latter can be reliably identified and measured.

Loan costs that are duly linked to the acquisition and construction of assets are capitalized. Capitalization of interest starts when the asset is in the design and planning stage, or in work in progress, and can continue until the asset is ready for its expected use. Loan costs shall cease being capitalized, to be recognized as expenses during the reporting period, as long as the development of construction activities becomes interrupted, if such an interruption were to continue during a significant amount of time.

Exchange differences that derive from bank loans and accounts payable to suppliers incurred for work in progress are not capitalized during the term of execution of the works.

The costs incurred by the support and technical support areas of the entity's segments, directly related with the construction and reliably measured, but that are not subject to be directly assigned to works, are identified with the cost center class "*Costos de gestión productiva para obras en construcción*". These costs are to be distributed each month among the work in progress, when applicable.

When developing or building works, both for the electricity and telecom sectors, obligations might arise in relation to restoration, retrieval, and similar costs. These costs are estimated based on

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a formal closing plan and are subject to annual review by the area responsible for them. Grupo ICE can consider any other actions taken by the management that have resulted in a valid expectation of the realization of an investment, against those third parties with which it has an obligation to fulfill a commitment or responsibility.

If the Group decides not to continue with a work in progress, the costs that were recognized as an asset to that date should be settled as an expense of the period; whereas these shall not be able to drive future financial benefits.

Investment inventories

The account "*Investment inventories*" includes the cost of existing physical goods that will be used in the construction of productive assets, as well as investments in inventories of goods in transit, in accordance with the international commerce terms (incoterms), when the risks and benefits for such assets have been transferred to Grupo ICE with the purpose of using them in activities inherent to the productive assets.

The cost of inventories shall comprise all of the costs arising out of their acquisition and transformation, as well as other costs incurred to condition them and take them to their current location. Investment inventories are included as an element of the property, plant, and equipment account.

Investment inventories are assessed by using the moving average inventory method.

Inventories, equipment and spare parts transferred to Grupo ICE before 2016 are controlled by means of an inventory category that is not valuated, provided the cost thereof was previously included in the amount of the energy purchase or in lease installments, in addition to having been recognized by Grupo ICE in the profit or loss of the reporting period, during the term of the agreement.

(ii) *Intangible assets*

Recognition and measurement

The account "*Intangible assets*" includes those assets that have no physical appearance and that the Group expects to use during at least one accounting period for administrative activities or in activities that differ from its normal operations; and the use of which, over more than one reporting period, or otherwise indefinitely, is expected.

Intangible assets established under this policy pertain to:

- Licenses, systems, and applications
- Right of way or other easements related to properties;
- Right of use or right of traffic on submarine cable (submarine fiber optics infrastructure).

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Intangible assets acquired from third parties and that have a finite useful are valued at their cost of acquisition, plus any cost directly attributable to the preparation of the asset for its foreseen use, less any accumulated amortization and impairment losses.

Costs of stations that are built by Grupo ICE are included as part of the rights of use of submarine capabilities with the purpose of achieving the technical and infrastructure conditions to interconnect submarine cables, and these are amortized over the term of the agreement as of the date such infrastructure starts operating.

Regarding right of way or other easements and the right of use of submarine capacity, these is recorded as of the signing of the agreement and for an amount agreed between Grupo ICE and the owner of the property, the owner of the submarine cable and/or the submarine fiber optics infrastructure.

The right of way or other easements related to properties and the rights of use of submarine capabilities are not revaluated.

The generation of intangible assets that have been internally developed by the Group are classified as follows:

- research stage; and
- development stage.

Intangible assets arising out of the research stage are not recognized. Disbursements related to research activities are recognized in the statement of profit or loss as they are incurred.

An intangible asset arising out of the development stage is recognized as such only if it meets the following conditions:

- Technically, it is possible to complete the production of the intangible asset in a way that it can be available for use or sale.
- There is an intention to complete the intangible asset to use or sell it.
- The capability to use or sell the intangible asset.
- The way in which the intangible asset will drive probable future financial benefits. Among other things, Grupo ICE should demonstrate the existence of a market for the production generated by such an intangible asset or for the asset itself, or otherwise, if destined for internal use, the use that Grupo ICE will give it.
- The availability of the adequate technical, financial, or other resources to complete the development and to use or sell the intangible asset.
- Its capacity to reliably measure the disbursement attributable to the intangible asset during its development.
- The cost of an intangible asset that has been internally generated comprises all costs related to it and necessary to create, produce and prepare the asset so that it can operate in the way the management has foreseen.

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Subsequent disbursements

Additions or improvements made to intangible assets already in operation are construed as intangible assets themselves, provided that they qualify as such.

Disbursements subsequent to the acquisition of the intangible assets are only recorded as intangible assets if they fulfill the recognition requirements mentioned in this policy, otherwise they are recognized in the profit or loss as incurred.

Amortization

Grupo ICE amortizes intangible assets such as software licenses, applications, and systems, as well as rights of use of submarine capabilities, in accordance with the term stated in the corresponding agreement or legal right to such assets, using the straight-line method. This term can be less than what Grupo ICE defines in relation to the expected use of such asset or can be greater in the event that such rights are transferred for a limited term that can be renewed, hence the useful life can include such renewal period(s), provided that there is evidence that Grupo ICE does not have to incur in significant costs to make such term renewals. Grupo ICE assigns a useful life of 3 years according to the term established in the fiscal regulation to intangible assets such as software licenses, applications and systems in relation to which there is no evidence of a contractual or legal right to use them, and, in addition, the area responsible for these lacks any information supporting their term of validity.

Grupo ICE records under "*Amortization - intangible assets*" the systematic distribution of the amortizable portion of the cost of such assets over the established term and as of the moment in which the asset is available for use, employing the straight line method.

The amortizable portion of intangible assets comprises the cost of acquisition or construction plus any other incidental costs.

Right of way or other easements related to acquired properties that have an indefinite useful life (i.e. there is no observable data in relation to a finite term over which this asset may generate future financial benefits for Grupo ICE), are not amortized.

Right of way or other easements related to properties acquired for a finite term are amortized over the term during which the right of way shall be in use and providing a benefit for Grupo ICE. If the agreement states that such a term can be renewed, then such renewal must be considered when defining the useful life of such right of way or other easement.

Intangible assets that fulfill their assigned useful lives and continue being used shall remain in the Group's asset database to control them and to suspend the computation of their amortization.

(iii) *Impairment of non-financial assets*

On each reporting date, Grupo ICE reviews the book values of its non-financial assets to determine whether there is any evidence of impairment. If evidence of such impairment exists, then the recoverable value of the asset is estimated.

Grupo ICE records impairment of cash generating units (CGU) when their book value exceeds their recoverable value. In these cases Grupo ICE will adjust the valuation of the asset or assets that make up the CGU up to their recoverable value (without decreasing the book value under its value in use or zero, whichever is greater), recording an impairment loss.

Grupo ICE has identified two separate cash generating units (CGU): electricity business operations and telecom business operations by considering the independent cash flows generated by each cash generating unit (CGU) and the way the management monitors each operation and makes decisions regarding the continuity or final disposition of the assets and operations of such units. This classification must be reviewed when circumstances and events that could affect the definition of these cash generating units occur or arise.

ICE uses the value in use to determine the recoverable amount of the cash generating units. The value in use is based on the present value of the estimated future cash flows, which is computed using a discount rate, before taxes, that reflects the current assessments of the market in relation to the time value of money and the specific risks that the asset or the cash generating unit might have.

Grupo ICE records impairment of cash generating units (CGU) when their book value exceeds their recoverable value. In these cases Grupo ICE will adjust the valuation of the asset or assets that make up the CGU up to their recoverable value (without decreasing the book value under its value in use or zero, whichever is greater), recording an impairment loss.

Grupo ICE tests its intangible assets with indefinite useful lives on annual basis, irrespective of whether any impairment indicators exist.

Grupo ICE will identify all of the common or corporate assets related to the cash generating unit being tested for impairment and will take the following into consideration:

- Impairment losses to reduce the book value of the assets that comprise the cash generating unit (or group of units) shall be distributed in the following order:
  (i) first off, the book value of any goodwill distributed to the cash generating unit (or group of units) shall be reduced; and
  (ii) then, the book value of the other assets of the unit (or group of units), starting with the operating assets of each CGU and ending with the common (corporate) assets.
- The impairment loss amount shall be distributed among the assets of the CGU according to the pattern that best adjusts to the financial reality of the assets. If no specific pattern is identified, it shall be prorated among the assets of the unit (group of units).

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- Grupo ICE will recognize in the reporting period the subsequent reversal of an impairment loss. The increased book value of the asset (or cash generating unit), after the estimate is reserved, shall not exceed the book value that could have been obtained had no impairment loss been recognized for the asset (or cash generating unit) during previous periods.

In addition, Grupo ICE recognizes the physical impairment that could affect its assets, as caused by events of force majeure or other physical damages, and this is recognized in the profit or loss.

(iv) *Equity investments (investments in subsidiaries, joint ventures, and others)*

The account "*Equity investments*" includes the cost of financial instruments acquired in order to hold ownership, significant influence, or control in related companies, such as subsidiaries, joint ventures, associates, and other investments.

Subsidiaries

Subsidiaries are entities controlled by ICE. The Group "controls" an entity when it is exposed or has a right to variable yields resulting from its involvement in the investee and has the capacity to influence those yields through the power it exerts over such investee.

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any related non-controlling interest and other equity components. Any resulting profit or loss is recognized in the results. If the ICE retains any interest in the former subsidiary, then such an interest shall be revalued at fair value as of the date that control was lost.

Other equity investments

Regarding investments in companies acquired with the purpose of holding equity interest, other than those classified as subsidiaries, associates or joint ventures because of the control exerted, Grupo ICE has irrevocably decided to, at the time of initial recognition, record subsequent changes in fair value as other comprehensive income.

Regarding investments which fair value cannot be calculated because there is no observable market data or any other information that allows the construction of a value model, Grupo ICE has made an exception to record them at amortized cost.

(v) *Notes receivable and other accounts receivable*

The Group records as non-current "*Notes receivable and other accounts receivable*" all credits granted and exceeding one reporting period, in contrast with those that have a term equal to or less than one year, which are recorded as current assets.

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Non-current and current notes receivable are recorded with the value of the collection document, which represents the amount that the debtor must pay in the term and conditions stated and continue recorded at that value during their lifetime, until they have been collected.

The notes receivable and other accounts receivable should be settled at the time the rights extinguish or when these are transferred.

Grupo ICE reclassifies as current assets that portion of the notes receivable and other accounts receivable that it expects to recover during the upcoming year.

(vi) *Investments in financial instruments*

Financial instruments (long-term certificates of deposit, bonds, sovereign bonds, among others, are classified as *"Investments in non-current financial instruments"* when their term exceeds one reporting period.

Investments in non-current financial instruments are initially recognized at fair value and subsequently measured at fair value or amortized cost, according to the business model in which they have been classified. (See note 7.c.ii)

Premiums and discounts in financial instruments are recorded as part of the asset or liability, and transaction costs, which are realized in the statement of profit or loss using the effective interest method, over the term that the Group expects to obtain financial benefits from these or otherwise during the term of such liabilities.

Non-current financial investments should be settled at the time that any rights are extinguished.

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

Deferred taxes are recognized due to temporary differences existing between the book value of assets and liabilities for purposes of financial information and their amounts, as used for fiscal purposes. Deferred taxes are not recognized for:

- Temporary differences recognized at the initial recognition of an asset or liability in a transaction that is not a business combination and that had no effect on the accounting or taxable profit or loss;
- temporary differences related to investments in subsidiaries and in joint ventures, to the extent that Grupo ICE can control the moment when the reversal of such temporary differences happen, and that it is probable that they will not be reversed in the future; and
- temporary taxable differences arising out of the initial recognition of any goodwill.

Deferred tax assets are recognized as a result of deductible temporary differences, to the extent that it is probable that future fiscal earnings will exist against which these can be offset. Deferred income tax assets are revised on each reporting date and are reduced to the extent that it will not be probable that the benefits for related taxes will be realized; this reduction shall be subjected to review to the extent that it is probable that there is enough fiscal earnings.

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At the end of each reporting period, one entity shall assess the unrecognized deferred tax assets once again and record an asset of this nature, previously unrecognized, provided that it is probable that future fiscal earnings allow the recovery of the deferred tax asset.

The deferred tax should be measured using the fiscal rates that are expected will be applicable to the temporary differences in the reporting period in which they are reversed using the approved o practically approved fiscal rates as of the date of the balance sheet.

The measurement of deferred tax liabilities will reflect the fiscal consequences that would arise out of the way that Grupo ICE expects, as of the end of the reporting period, to recover or settle the book value of its assets and liabilities.

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

(e) Policies for current assets

(i) Operating inventories

The "*operating inventories*" account includes the cost of physical goods held by Grupo ICE in its warehouses, as well as inventories of goods in transit for its operation, in accordance with the international commerce term (incoterms) when the risks and benefits of such assets are transferred to ICE. This account also includes goods that are used in activities inherent to the operation and maintenance of productive assets; those that are used for administrative or management purposes; or goods that are destined for sale.

The cost of inventories shall comprise all of the costs arising out of their acquisition and transformation, as well as other costs incurred to condition them and take them to their current location.

Operating inventories are assessed by using the moving average inventory method.

Inventories, equipment and spare parts transferred to Grupo ICE before 2016, once the BOT (Building, Operate and Transfer) agreements or the operating lease agreements concluded, are controlled by means of an inventory category that is not valuated, provided the cost thereof was previously included in the amount of the energy purchase or in lease installments, in addition to having been recognized by ICE in the profit or loss of the reporting period, during the term of the agreement. After that reporting period, they are recorded at their fair value.

Inventories acquired for sale shall be measured at the lesser of their cost or net realizable value. The net realizable value represents the estimated sale price of an asset during the normal course of operation, less any estimates associated with the eventual sale of the asset. The cost of these inventories cannot be recovered if they have been damaged; are partially or completely obsolete; their market prices fall; or otherwise if the costs estimated for their termination or sale has increased; this taking into account the formula to determine their net realizable value. The practice of decreasing their balances until their cost is equal to their net realizable value

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is consistent with the idea that assets should not be recorded in the Group's books with values that exceed the amounts that the Group expects to receive through their sale or use.

Net realizable value estimates are based on the most reliable information available about the expected realizable value of the inventories at the time that such estimates are prepared. These estimates take into consideration price or cost fluctuations related to events occurring after the reporting period, inasmuch as these events confirm existing conditions at the end of the reporting period.

A new assessment of the net realizable value shall be performed on each subsequent period when the circumstances that previously caused the inventory decrease cease existing; or when there is clear evidence of an increase in the net realizable value as a result of a change in financial circumstances, the amount thereof shall be reversed so that the new accounting value is the lesser between the cost and the revised net realizable value.

The estimated amount of the operating inventory valuation must be revised from time to time to guarantee the hedging of any possible obsolescence or impairment.

Inventories are decreased when used to build works, in the Group's operations, when withdrawn from warehouses due to obsolescence or impairment, when returned to suppliers or when sold.

(ii) *<u>Notes receivable and other accounts receivable</u>*

<u>Notes receivable</u>

Loans granted to third parties with a maturity of one year or less are recorded as "*Notes receivable*". These assets are initially recognized at fair value, which represents the amount that the debtor must pay to Grupo ICE in the stated terms and conditions. They are subsequently measured at amortized cost. (See note 7.c.ii)

<u>Non-trade receivables (Other accounts receivable)</u>

Rights enforceable against third parties and originating from transactions that differ from those services normally rendered by Grupo ICE are recorded as *"Non-trade receivables (Other accounts receivable)"*.

These accounts receivable are initially recognized at fair value, which represents the amount that the debtor must pay to ICE during the corresponding term and in the agreed conditions. They are subsequently measured at amortized cost. (See note 7.c.ii)

Reciprocal accounts receivable and payable between Grupo ICE and third parties must be recorded as independent transactions, but are subject to offsetting if this is convenient for the parties, if there is a legal obligation to do so and if there is an intent to settle the net amount, or to realize the asset and liquidate simultaneously liquidate the liability.

Non-trade receivables are settled upon effective enforcement of the corresponding right, or as of the moment these are offset against the expected losses due to defaults estimate.

<u>*Prepayments to creditors*</u>

Grupo ICE records as "*Prepayments*" any payments made to suppliers or creditors in consideration of materials or goods that have not been recognized as assets by Grupo ICE as the risks and benefits thereof have not yet been transferred to Grupo ICE.

(iii) <u>*Temporary investments*</u>

The Group records as "*Temporary investments*" the cost of financial instruments acquired and arising out of temporary cash surpluses.

Temporary Investments are initially recognized at fair value and subsequently measured at fair value or amortized cost, according to the business model in which they have been classified. (See note 7.c.ii)

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

<u>*Valuation of investments*</u>

The valuation of investments that are designated at fair value with changes recorded in the statement of other comprehensive income or at fair value with changes recorded in the statement of profit or loss are realized using a prices vector, using the information provided by *Valuación Operativa y Referencias de Mercado (VALMER),* a company that provides updates prices. This helps the Group determine the market valuation of such investments, which is compared against the book value of the investment. Changes in the investment's fair value resulting from this valuation are recorded against an equity account called "*Results of valuations of financial instruments*", until the account is written-off, at which point it is recognized in the profit or loss.

When an investment in a security measured at fair value with changes recorded in the statement of other comprehensive income is liquidated or written-off, the cumulative changes in fair value that were previously stated as equity are recognized in the profit or loss.

Investment valuations are recorded at least once a month to feed and maintain a sales and fair values index thereof.

The effect of the exchange rate variations on the changes in fair value of temporary investments measured at fair value with changes recorded in the statement of profit or loss, expressed in foreign currency, are recorded in the profit or loss.

The effect of variations in the exchange rate have on investments measured at amortized cost and at fair value with changes recorded in the statement of profit or loss is recognized in the profit or loss of the reporting period as they occur.

Recording of valuations ceases when investments mature, are traded, or are otherwise reclassified from financial assets measured at fair value with changes recorded in the statement of other comprehensive income to financial assets measured at amortized cost.

(iv) *Restricted Use Funds*

The account "*Restricted Use Funds*" contains all such financial resources that are burdened with availability restrictions, and that are received as a guarantee for services that are yet to be rendered in favor of Grupo ICE.

Restricted use funds are recorded at par value and settled when such resources are returned to the guarantors.

(v) *Accounts receivable, net*

Accounts receivable for services rendered

Under the account "*Accounts receivable for services rendered*" the Group records all obligations enforceable against clients and arising out of the rendering of electricity and telecom services. These amounts are measured at amortized cost, less impairment losses. (See note 7.c.ii)

Accounts receivable for services rendered are recorded as the par value of the document that supports the transaction, which must state the amount owed, term, and conditions, depending on the type of service.

Reciprocal accounts receivable and payable between Grupo ICE and third parties must be recorded as independent transactions, but are subject to offsetting if this is convenient for the parties, if there is a legal obligation to do so and if there is an intent to settle the net amount, or to realize the asset and liquidate simultaneously liquidate the liability.

Accounts receivable for services rendered by businesses are written-off upon effective enforcement of the right to collect, or when the rights to receive the contractual cash flows are transferred, expire or are offset against the losses due to default in payment estimate.

(vi) *Prepaid expenses*

The following are recorded as "*Prepaid expenses*":

- The cost of disbursements made in consideration of the future receipt of goods and services under any executed agreements.
- Mobile terminals that are sold with postpaid plans at a price under the listed retail price or completely free, which are realized as expenses according to the term of the postpaid plan or package, in correlation to the plan's revenue.
- The cost of fuel consumption for thermal generation, the tariffs of which are recognized by the regulatory authority during the same reporting period in which it was requested, that arises out of existing mismatches in relation to the application of the variable fuel costs (VFC)

methodology. This cost is realized in the profit or loss statement using the straight line method, in compliance with the term established by the regulatory authority to recover it via a tariff, which term can vary, subject to the subsequent notices made by the regulatory authority.

- The costs of energy imports, the tariffs of which are recognized in the same accounting period in which the expense is realized, but the recognition of which is deferred over a specific term, pursuant to the regulatory authority's specifications. This cost is realized in the statement of profit or loss pursuant to the term established by the regulatory authority to recover it via a tariff, which term can vary, subject to the subsequent notices made by the regulatory authority.
- Additional costs in consideration of energy purchases from private generators, the tariffs of which are recognized in the same accounting period in which the expense is recognized, but the recognition of which is deferred over a specific term, pursuant to the regulatory authority's specifications. This cost is realized in the statement of profit or loss pursuant to the term established by the regulatory authority to recover it via a tariff, which term can vary, subject to the subsequent notices made by the regulatory authority.

Prepaid expenses recorded at their cost of acquisition and amortized in consideration of the consumption of future financial benefits arising out of the consumption or enjoyment of any rights that have already been paid.

Prepaid expenses incurred as a cost of mobile terminals are recognized as expenses upon settling of the service or withdrawal or change of the mobile plan.

(vii) *Cash and cash equivalents*

Grupo ICE recognizes the following lines as "*Cash and cash equivalents*":

- Banks: Bank transactions that affect any foreign or domestic cash deposited in the current accounts of any public or private, foreign, or domestic, financial entities; and that is used in the entity's operations.
- Cash equivalents: An investment is considered a cash equivalent if it is readily convertible to known amounts of cash and is subject to an insignificant risk of changes in value, and has a maturity of three or less months from its date of acquisition, provided that no legal or contractual obligation to dispose of such resources exists.

(f) Equity policies

(i) *Other reserves*

Legal reserve

According to current regulations, the subsidiary CNFL must allocate 5% of its annual net profit to establish a legal reserve that must hold an amount equivalent to 20% of its capital stock.

Project development reserve

The subsidiary CNFL established the "*Project development reserve*" during the Ordinary Meeting of Shareholders, number 97, of April 30, 2001, during which the transfer of the retained earnings as of December 31, 2000, and the unpaid declared dividends as of December 31, 1999, the amount of ¢1,000, was authorized to prepare an equity fund to finance the working capital for projects under development.

Capital reserve

Under Act No. 3293 of June 18, 1964, the subsidiary RACSA records a capital reserve equivalent to 25% of the earnings before taxes.

(ii) *Actuarial gains and (losses)*

Grupo ICE records as "*Actuarial gains and (losses)*" all changes in the assumptions used to compute the present value of the post-employment employee benefits obligation, such as demographic (mortality, turnover, disability, and early withdrawals) and financial assumptions (discount rate used).

(iii) *Valuation of financial instruments*

This account reflects the results of financial instrument valuations engaged by Grupo ICE, both cash flow hedging and investments measured at fair value with changes in the statement of other comprehensive income or at fair value with changes in the statement of profit or loss (see note 7.c.ii).

Valuations are recognized as equity or in the profit or loss, depending on the business model used to classify the instrument.

The value of the discounted positive or negative cash flows of certain financial instruments determined to have effective hedging are recorded under the "*Valuation of financial instruments*" account.

The valuation of financial instruments is settled once the instrument is traded, sold, or expires.

(iv) *Retained earnings*

The results of the operations of the subsidiaries of ICE during the reporting period are recorded as "*Retained earnings*". Retained earnings are adjusted due to the effects driven by changes to accounting policies, corrections of errors from prior periods and adjustments of equity accounts.

(v) <u>*Development reserve*</u>

The results of the operations of the Costa Rican Institute of Electricity [ICE] during the reporting period is stated as a "*Development reserve*". According to Act No. 449, this amount has to be allocated to the development of electricity and telecom services and activities.

The development reserve is adjusted due to the effects driven by changes to accounting policies, corrections of errors from prior periods and adjustments of equity accounts.

(vi) <u>*Net surplus (deficit)*</u>

The result obtained from settling the balances of all revenue and expense accounts at the closing of each reporting period is recorded under the "*Net surplus (deficit)"* account.

The net surplus (deficit) of ICE and the net profit or loss of its subsidiaries at the end of each reporting period are settled upon transferring their balances to the equity accounts *Development reserve* and *Retained earnings*, respectively.

(g) <u>Policies for non-current liabilities</u>

(i) <u>*Debt securities payable*</u>

All obligations with third parties arising out of the issuance of debt securities (bonds) and that represent financial undertakings that last more than one year are recorded as "*Debt securities payable*", under the non-current liabilities section. These obligations are recorded at amortized cost, subject to the debt that has been undertaken.

The amortized cost of a financial asset or liability includes premiums and discounts, as well as transactions costs, which are realized in the statement of profit or loss using the effective interest method, over the term during which the Group expects to obtain financial benefits from them or otherwise during the term of such liabilities.

The reduction of a debt security (bond) is realized partially or completely when Grupo ICE amortizes or settles the amount owed.

Grupo ICE states as short-term debt securities payable that portion of the long-term debt securities payable that it expects to pay in a year or less.

(ii) <u>*Notes payable*</u>

The account "*Notes payable*" under the non-current liabilities section includes obligations undertaken by Grupo ICE over more than one reporting period with institutions, financing bodies, suppliers, or lessors.

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

The amortized cost of a financial asset or liability includes premiums and discounts, as well as transactions costs, which are realized in the statement of profit or loss using the effective interest method, over the term of such liabilities.

Grupo ICE reclassifies the current portion of non-current notes payable that it expects to pay in a period equal to or less than one year, as well as those non-current debts enforceable in the short term due to violations or breaches of covenants, in accordance with consolidated financial reporting accounting policies and events occurring after the reporting period. Therefore, the following applies:

a) If Grupo ICE breaches a covenant and is not granted a waiver before the closing date of the financial statements, and such waiver spans over, at least, the following twelve months, then the entire balance of the ICE's debt under such loan is classified as short-term.
b) If Grupo ICE obtains a waiver in relation to such breach on a date subsequent to the closing date of the consolidated financial statements, this should be disclosed given that it is considered material for the consolidated financial statements as a whole. Nevertheless, this event after the reporting period does not release Grupo ICE from classifying the entire debt as short-term (payable).

Non-current notes payable are recognized as the financial entity or supplier transfer the cash flows or goods to Grupo ICE or to the suppliers on behalf of Grupo ICE; or as the interest are capitalized to the principal during the disbursement period of the loan, when this has been agreed. These notes payable are recognized and measured at amortized cost.

The reduction of notes payable is realized partially or completely when Grupo ICE amortizes or settles the amount owed.

(iii) *Financial leases obligations*

The Group records as "*Financial leases obligations*", in the non-current liabilities section, all obligations it undertakes with institutions, financing entities, suppliers, lessors, or other, in consideration of goods received under a financial lease, provided that the term thereof exceeds one reporting period.

Financial lease obligations are recorded and measured at their amortized cost, considering transaction costs, which are amortized using the effective interest method.

Those obligations undertaken between the Group and other entities during its normal course of business, with a span of at least one year, are recorded as non-current financial lease obligations. The current liabilities section includes the portion due within one year of non-current financial leases.

Financial lease obligations are recorded as the face value of the contractual document, or otherwise, in the event of early receipt of the asset, at the present value of each disbursement (asset receipt), until the face value thereof is reached over such anticipated term, and until the effective date of the lease, which is contractually established.

Reductions of financial leases obligations are realized partially or completely when the current portion is transferred and when Grupo ICE amortizes or settles the amount owed.

(iv) *Provisions*

"*Provision*s" are recognized in Grupo ICE when the following conditions are met:

a) a present obligation (whether legal or implicit) exists as a result of a prior event;
b) it is likely that Grupo ICE will have to dispose of resources that incorporate financial benefits to settle the obligation;
c) a reliable estimate of the obligation's amount can be prepared;

The amount recognized as a provision should be the best estimate of the consideration required to completely settle the obligation at the closing of the reporting year, taking into account all corresponding risks and uncertainties.

The provisions should be reviewed at the end of each reporting period and adjusted accordingly to reflect the best estimate available.

Employee benefits provision:

Post-employment benefits - legal benefits:

For the employees of Grupo ICE considered permanent:

The amount that the Management of Grupo ICE estimates it will require to face the payment of the unemployment aid owed to its employees, the existence of which can only be confirmed upon the occurrence or not of one or more uncertain, future events that are not entirely under Grupo ICE's control.

It is recorded as a current provision for employee benefits (legal benefits). The estimated sum is required to face the unemployment aid owed to its employees, in a period of one year or less, in accordance with the result of the actuarial study of such benefit.

The provisions that Grupo ICE applies to the payment of legal benefits arising out of the termination of employment of its personnel (unemployment aid) complies with Act 9635, "Strengthening of Public Finances", which establishes, in accordance with a legal opinion issued by Grupo ICE, that those employees that had a tenure of at least 12 years of employment as of the entry into force of such Act (December 4, 2018) are entitled to an unemployment aid of 12 years. All other employees will be entitled to no more than 8 years of unemployment aid.

(Continued)

Personnel appointed under mode 08, governed by the Autonomous Employment Regulations [RAL] of Grupo ICE shall not receive, under any circumstances, more than eight years of unemployment aid.

Computation of the amount of such a benefit is prepared by a qualified actuary using the projected unit credit method.

Regarding the payment of unemployment aid, this is computed using the day the employee started working for the public sector, provided that the following conditions are met:

- Continuous employment: that is to say, when the start of employment at Grupo ICE is continuous in relation to the employee's start date in the public sector, in business days.
- The employee has not been dismissed from the public institution in which he/she worked before starting with Grupo ICE.
- The employee did not receive any legal benefit from the public institution where he/she used to work.

For project employees:

Project employees are hired to execute the projects that Grupo ICE develops and are dismissed once the project is completed. To cover their legal benefits, Grupo ICE allocates an amount equivalent to 9% of the gross monthly salary of these employees to a provision. This provision results in the recording of an expense.

(v) *Non-current accounts payable*

Those obligations undertaken between the Group and other entities during its normal course of business, and which due date is after one year, are recorded as non-current accounts payable.

The transfer of transmission assets (BOT) is recorded under the non-current accounts payable line when the asset is received as property of ICE, as per regulations.

Non-current accounts payable are valuated by the total amount payable agreed in relation to the contracted obligation, which is equivalent to their amortized cost.

Reductions of non-current accounts payable are realized partially or completely when the current portion is transferred and when Grupo ICE amortizes or settles the amount owed.

(vi) *Deferred revenue*

The "Deferred revenue" account includes, as non-current liabilities, all government aids that comply with the definition of government subsidies, whether foreign or domestic, and that are expected to be realized as revenue over more than one reporting year.

Non-current deferred revenue is recorded as the fair value of the government subsidy received.

Deferred revenue is decreased as the portion of the liability that the Group expects to realize as revenue during the reporting period is reclassified as a current liability.

(vii) *Other provisions*

"*Other provision*s" are recognized by Grupo ICE when the following conditions are met:

- a present obligation (whether legal or implicit) exists as a result of a prior event;
- it is likely that Grupo ICE will have to dispose of resources that incorporate financial benefits to settle the obligation,
- a reliable estimate of the obligation's amount can be prepared;

The amount recognized as a provision should be the best estimate of the consideration required to completely settle the obligation at the closing of the reporting year, taking into account all corresponding risks and uncertainties.

Legal provisions

a) Litigation

An entry is recorded in the "*Litigations provision"* when the probability that an obligation arises is equal to or greater than 50%. Likewise, Grupo ICE has to consider whether, given the past event, it will have no other more realistic choice but to service the obligation, taking into account the available evidence and professional criteria.

(Continued)

The best possible estimate of the amount of the obligation must be prepared, according to a professional criterion and based on the facts and circumstances relating to the case at the time of analysis. In exceptionally extraordinary circumstances in which a reliable estimate cannot be prepared, such a limitation must be justified.

b) Guarantee of mobile terminals provision

Grupo ICE recognizes in the "*Guarantee of mobile terminals provision*" the expected cost of any such obligations that it would have to service, pursuant to local laws governing the sale of goods, in accordance with the best estimates prepared by the corresponding technical and financial areas about the disbursements required to settle any of Grupo ICE's obligations with its clients.

When these guarantees are supported by a third party (that is to say, the supplier) that will cover all or part of the disbursement required to settle the provision, i.e. the asset relating to such a right shall only be recorded when its receipt is practically certain. In these cases, the asset must be recorded separately to the liability for the provision.

c) Readjustment of prices

The "*Readjustment of prices*" provision pertains to the expected cost of obligations to be services, based on the best estimates of the technical and financial area about the disbursements required to settle obligations with suppliers.

Grupo ICE capitalizes this provision provided that such amounts comply with the criteria to recognize property, plant, and equipment. Otherwise these are recognized in the profit or loss of the reporting period.

The readjustment of prices provision can occur when the construction process arises or otherwise when the property enter operation. If the asset is already in operation, it will be depreciated over the remainder of its useful life.

d) Restoration and decommissioning

An entry is recorded in the "*Restoration and decommissioning"* provision for all expected costs of future restoration, rehabilitation and other obligations of sires where the productive assets and projects of Grupo ICE are located, to the extent that there is a legal or implied obligation.

The provision for restoration and decommissioning includes the costs associated with the recovery of areas, such as environmental remediation, soil conditioning, reforestation and maintenance of planted species, construction of access roads, mobilization of villages, improvements to infrastructure of localities neighboring projects such as schools, parks, etc..

The best estimate of the restoration and decommissioning costs arising from the installation of an asset, discounted at their net present value, are provisioned and capitalized at the start of each project, as soon as the obligation to incur such costs arises.

(Continued)

(viii) *Other non-current liabilities*

Security deposits

The obligations arising from the cash received by the Grupo ICE from its customers to provide electricity and telecommunications services are recorded as "*Security deposits*". The objective of this liability is to guarantee the total or partial collection of any bills that clients fail to pay.

Security deposits are recorded at their face value.

Security deposits are offset against the corresponding accounts receivable when, at the request of the client, the service is canceled, or when Grupo ICE cancels it for lack of payment.

(h) Policies for non-current liabilities

(i) *Debt securities payable*

Grupo ICE records as current "*Debt securities payable*" the obligations incurred with third parties arising out of the issuance of debt securities (commercial paper) that represent financial obligations due within a year, as well as the current portion of long-term debt securities payable that it expects to pay within that year.

Obligations relating to securities issued by the entity are recorded at amortized cost, according to the liabilities incurred.

The reduction of a debt security (bond) is realized partially or completely when Grupo ICE amortizes or settles the amount owed.

(ii) *Notes payable*

The "*Notes payable*" account includes obligations undertaken with institutions, financing agencies, suppliers or lessors over an accounting period less than or equal to one year, as well as the current portion or the one due in the short-term of any non-current debt. Notes payable are measured at the amortized cost of the contractual documents.

The partial or complete reduction occurs when Grupo ICE amortizes or settles the amount owed, or otherwise when the obligation expires.

(iii) *Financial leases obligations*

Grupo ICE records as *"Current financial leases obligations"* the portion of the non-current obligation that is expected to be canceled in a period less than or equal to one year.

Those obligations undertaken between the Group and other entities during its normal course of business are recorded as current financial lease obligations. If there are balances of short-term financial lease obligations that have maturities that exceed one year, these are reclassified to the long-term section of the consolidated balance sheet.

Current financial lease obligations are valuated by the total amount payable agreed in relation to the contracted obligations.

The partial or complete reduction of a financial lease obligation occurs when Grupo ICE amortizes or settles the amount owed.

(iv) *Accounts payable*

Grupo ICE records as " Current accounts payable" the obligations entered into with different entities during the normal course of business, provided they are due in one year or less, depending on the order (local, import or service), as follows:

- Import purchase orders: recognized when a final commitment to purchase goods is executed (import purchase orders), and when the risks and benefits of the traded good have been transferred, or otherwise until at least one of the parties has executed its obligations, pursuant to international commercial terms (incoterms) and agreements.
- Local and service purchase orders: recognized when the goods are accepted and when the advance (accrual) or acceptance of the service is given by the contract manager.

The portion of non-current accounts payable due within one year is recorded in the current liabilities section.

Current accounts payable are valuated by the total amount payable agreed in relation to the contracted obligation, which is equivalent to their amortized cost.

The complete or partial reduction of accounts payable occurs when Grupo ICE amortizes or settles the amount owed.

(v) *Deferred revenue*

The obligations arising from the advance payments made by customers during the rendering of normal services, construction services to third parties, as well as the current portion of long-term government subsidies that are expected to be realized to the profit or loss within one year, are all recorded as "*Deferred revenue*".

Such asset is recorded at the value agreed to provide the service and is reduced as the services are rendered or the systematic allocation of government subsidies are realized as revenue, according to the useful life of the main asset associated with the received subsidy.

(vi) *Accrued employer obligations payable*

The Group records as *"accrued employer obligations payable"* those obligations relating to payroll (ICE and project employees), Christmas bonus, *school aid*, vacations, and occupational risks.

a) *Christmas bonus*

Under Costa Rican laws, employees are entitled to the payment of an amount equivalent to one twelfth of their monthly salary for each month worked. This payment is made to the employee in December, regardless of whether he or she is dismissed. Grupo ICE records monthly entries in a provision to cover future disbursements of this nature.

b) *School aid*

The ICE, RACSA and CNFL have a policy to accrue money to pay the *school aid,* which consists of a percentage computed over the monthly nominal salary of each employee. The accrued total is paid each year in January. The obligation associated with this benefit is computed on the basis of 8.19% of the worker's gross salary. This benefit is paid to each employee, even if they do not have children or if they have children who are not of school age.

The *school aid* consists of an additional cost of living adjustment to the employees' salaries, helping them face the disbursements related to the school year.

c) *Vacations*

Grupo ICE grants holidays to all its workers, in accordance with the provisions of the Labor Code and Chapter XXVII of its Employee Bylaws, in accordance with the modality of their employment agreements. The number of days to be awarded will be defined according to the time worked for the institution or other public sector institutions for which the employee previously worked. This benefit is considered a short-term benefit.

Grupo ICE maintains a vacations provision, which is established on the basis of the number of years that its employees have been working for ICE, as follows:

- Between 1 and 5 years, 4.17% of their gross salary.
- Between 5 and 10 years, 6.11% of their gross salary.
- Over10 years, 8,33% of their gross salary.

For project employees, an amount equivalent to 7.5% of the employee's gross salary is allocated to the provision.

d) *Occupational risks*

The Grupo ICE has as a policy to accrue financial resources for the payment of occupational risk disbursements. This obligation is computed based on the percentage that the insurance entity establishes on the total salary earned by each employee.

The liability for occupational risks is settled with the payment made to the insurance entity.

Accrued employer obligations payable are settled periodically as the obligation is extinguished, either by enjoyment or payment.

(Continued)

(vii) *Accrued interest payable*

The financial costs (interest and commissions) accrued and unpaid arising out of obligations with financial institutions or agencies are recorded as *"accrued interest payable*".

The accrued financial expenses are valuated at the cost incurred according to the contractual terms of the debit to which they relate.

The decrease in accrued financial expenses occurs when the entity settles the amount owed or when these are capitalized to the principal amount of the debt.

(viii) *Other liabilities*

Valuation of derivative financial instruments

Changes in the fair value of cash flow hedges are recorded as "*Valuation of derivative financial instruments*" in the Group's liabilities. Their value changes in response to the price changes of the underlying asset.

For those instruments that are classified as hedges, the effect of changes in their valuation is classified in other comprehensive income or in the profit or loss, based on the assessment of their effectiveness. The effect of the valuation of financial derivative instruments that are not classified as hedge accounting is recorded as a financial expense in the profit or loss.

The derivative financial instrument valuation account is settled at a future date in accordance with the terms of the contract.

Under cash flow hedge accounting, to cover fixed-rate debt against foreign currency risk, the net settlement of interest originating from the hedging instrument (exchange of cash flows) is recognized.

Under cash flow hedge accounting , to cover fixed-rate debt against foreign currency risk, the effect of the exchange differences caused by the quantification of debt in a currency other than the colón is reversed, with net interest accrued by the hedging instrument, to recognize the reclassification of the effective portion of the derivative from the profit or loss to the balance sheet.

The assessment of the instrument shall be closely related to the equity or otherwise to the profit or loss of the reporting period, in accordance with the measurement of the effectiveness of the instrument.

Private deposits

The obligations arising from the cash provided by persons or entities, whether natural or legal persons, to completely or partially finance works for their benefit, as well as to guarantee the rendering of services pending to be rendered to Grupo ICE, are recorded as "*Private deposits*".

(Continued)

Debit "*private deposits*" are recorded at their face value, or otherwise at the value agreed for the construction of the works.

Private deposits are settled when the service is completed, the contract is terminated, the guarantors are reimbursed or the client defaults.

(i) Policies for memorandum accounts

Grupo ICE records as "*Debit memorandum accounts*" and as *"Credit memorandum accounts*" the contingent rights or obligations, goods and securities issued or received for custody, in consignment, for management or as a guarantee of any operation; and the notional value of derivative financial instruments; that could affect it, reason why they are only shown for information purposes.

Memorandum accounts are recorded at their face value.

Memorandum accounts are reciprocally settled in whole or in part when the contingent rights or obligations associated to the operation become extinguished.

(j) Policies for operating revenue

Revenue earned from the sale of goods, electricity and telecommunications services, and other income, both inside and outside of the national territory, is recorded as "*Operating revenue*".

Grupo ICE only records an agreement with a client once all of the following criteria have been met:

a) the agreement has been approved by the parties thereto and the parties are committed to fulfilling their respective obligations;
b) the Institute is able to identify the rights of each Party in relation to the goods or services to be transferred;
c) the Institute is able to identify the terms of payment for the goods or services to be transferred;
d) the agreement has commercial substance; and
e) it is likely that the Institute will collect the compensation to which it will be entitled in consideration for the goods or services that will be transferred to the client.

Grupo ICE recognizes revenue from ordinary activities from agreements with its customers, when (or as) it satisfies performance obligations by transferring control of the committed goods or services. At the start date of each agreement, the Institute determines whether it will meet the performance obligations over time or at a given time.

Grupo ICE transfers control of the service over time and thereby satisfies a performance obligation and recognizes the revenue of ordinary activities over time.

Grupo ICE considers the terms of the agreement and its traditional business practices to determine the price of the transaction. The price of the transaction is the amount of the consideration that it

(Continued)

expects to be entitled to in exchange for transferring the committed goods or services to the customer, excluding any amounts collected on behalf of third parties.

The revenue amount from ordinary activities under agreements with customers arising from a transaction is normally determined by way of agreement between the Institute and the client. These streams of revenue shall be measured at the fair value of the consideration received or to be received, taking into account the amount of any discount, bonus, or commercial rebate that the Institute may grant.

Grupo ICE records electricity and telecommunications services revenue through the use of billing cycles, supported on receipts issued for those services, which incorporate the date range (billing cycle) that covers the period the customer is being billed. The date of that receipt is the support to account for the revenue of the corresponding period.

Service revenue is recorded individually according to each type of service being incorporated into the plan or package being marketed.

Grupo ICE records revenue from post-payment telecommunications services, according to the date of the invoice or receipt issued to the customer after the service is provided (billing cycle).

Revenue from the provision of services prepaid by clients is recognized as revenue individually in each type and classification until services are provided to the end customer. Both fixed and mobile traffic are recorded as revenue as they are consumed. In the case of prepaid services, the amount corresponding to the paid traffic revenue pending consumption generates deferred income that is recorded as *"Deferred revenue"* in the liability section of the consolidated balance sheet. Sales of terminals sold individually or as part of plans or packages marketed by ICE are recognized as revenue. The revenue from the sale of terminals is recognized by the amount established in the plans or packages marketed, at the time the terminal is transferred to the buyer.

Grupo ICE simultaneously recognizes the revenue from ordinary activities and the related costs or expenses with a single transaction or event; this process is usually referred to as the correlation of expenses to revenues.

Grupo ICE will generally be able to make reliable estimates after having agreed, with the other parties to the operation, on the following points:

- The rights that each of the concerned parties can enforce in relation to the services that such parties will provide or receive;
- The balancing entry of that exchange; and
- The payment method and terms;

Grupo ICE can measure the degree of revenue realization using several methods, according to the one that best reflects the reliability of the services, depending on the nature of the operation;

The methods that it employs include:

(Continued)

- The inspection of the work carried out;
- The proportion of services executed to date as a percentage of total services to be provided; or
- The proportion of costs incurred to date and considered recoverable as a percentage of the estimated total cost of the operation, computed in a way that only the costs that reflect already rendered services are included among the costs incurred to date, and only the costs that reflect services already executed or to be executed are included in the estimated total costs of the operation.

Where income cannot be reliably estimated, and costs incurred in it are unlikely to be recovered, income from ordinary activities will not be recognized, but costs incurred will be recognized as expenses during the reporting period.

Revenue arising from the rendering of services to third parties, other than those services provided during the normal course of business of Grupo ICE, are recorded as other income.

Assets transferred by clients to the Grupo ICE, as donations for the electricity and telecommunications activities in which the Group is involved, either as property, plant and equipment, or otherwise as cash and on a non-refundable basis, are recorded as Other income.

The Group also records as Other income the realization of government subsidies under which resources (cash or assets) are transferred to the institution, according to the systematic allocation defined in relation to the main asset related to the subsidy.

(k) Operating costs policies

In the statement of profit or loss and other comprehensive income, the operating costs and expenses lines are sorted by function; however, at an accounting record level, this is done according to the nature of the cost or expense (purpose of expenditure), reason why they are identified by function, according to the cost center class.

(i) Operation and maintenance

The costs of operating productive assets and of maintaining them in optimum work conditions for the rendering of services are recorded under the "*Operation and Maintenance*" account.

The realized cost of fuels for thermal generation, previously recognized as a "prepaid expense" according to the systematic allocation made by the business, pursuant to the time period established by the regulatory authority to recover such cost in the tariff, is recorded in the *Operation and Maintenance* account.

Operation and maintenance costs are stated at the incurred cost.

(ii) <u>*Operation and maintenance of equipment under lease*</u>

The cost of leasing, operating, and maintaining third-party productive assets used to provide electricity and telecommunications services is stated as *"Operation and maintenance of leased equipment"*.

Lease agreements for telecommunications and electricity equipment are stated and classified according to the analysis of the classification policies defined for operating or financial leases.

Payments derived from operating leases are recognized during the term of the lease, in accordance with the terms of the agreement. Minimum lease payments made under financial leases are distributed between the costs of financing and the principal of the obligation.

The realized cost of fuels for thermal generation in plants that are the property of third parties, previously recognized as a "prepaid expense" under the systematic allocation made by the business, pursuant to the time period established by the regulatory authority to recover such cost in the tariff, is recorded in the *Operation and Maintenance of Equipment under Lease* account.

(iii) <u>*Supplementary purchases and services*</u>

The costs incurred by Grupo ICE to acquire electricity and telecommunications services from third parties are stated as *"Supplementary purchases and services"*.

The acquisition of energy and the amortization of the cost (tariff breakdown), previously recognized as a prepaid expense, for purchases of energy from private generators and for energy imports, are presented as supplementary purchases and services.

Supplementary purchases and services are stated at the face value of the payment document.

(iv) <u>*Productive management*</u>

The costs incurred by the support and backing areas of Grupo ICE's segments to execute their administrative and technical management tasks are recorded as *"Productive Management"*.

Productive management costs are stated at the incurred cost.

The costs of productive management of the Management of Electricity are distributed among the subsegments that make up the electricity sector, according to the established cost drivers.

(Continued)

(l) Operating expenses policies

(i) Administrative

The expenses incurred by the Corporate Sector to promote and ensure efficiency in the management and fulfillment of the objectives and goals of Grupo ICE, as well as for the normal development of the administrative function are stated as *"Administrative"*.

Administrative expenses are stated at incurred cost.

Administrative expenses are distributed among the segments that make up each sector of Grupo ICE, in accordance with the methodology established for this purpose through the use of cost drivers.

(ii) Marketing

The following items are recorded under the "*Marketing"* account:

- Expenses incurred by Grupo ICE to sell electricity, telecommunications, and other technical services to customers. It includes activities such as conceptualization of the service, customer service, and recovery of the financial benefits driven by the services.
- The cost of mobile terminals and other devices for the rendering of electricity and telecommunications services.
- The cost of mobile terminals that are sold with postpaid plans at a price under the listed retail price or completely free, according to the systematic allocation that is based on the term of such plan.
- The portion of the mobile terminal sold below the list price, in postpaid plans, corresponding to the value of terminal income recognized at the time of sale.
- The outstanding cost of amortizing mobile terminals of postpaid cellular plans sold at a price under the listed retail price or completely free to the client, in the event the service is settled or withdrawn, or the plan is changed.

Marketing expenses are stated at the incurred cost.

(iii) Preliminary studies

The costs incurred in the preliminary phases of a project are recorded as *"Preliminary studies"*, in which it is unknown whether these are to be implemented. This include activities related to the identification and prefeasibility of possible projects or works to be built.

These expenses are stated at incurred cost.

(iv) Pre-investment studies

The following items are recorded under the "*Pre-investment studies"* account:

(Continued)

- Expenses incurred in the preliminary stage of a project, during which there is no certainty whether it will be implemented or not. This include activities related to the feasibility of possible projects or works to be built.
- The previous costs for social mitigation and compensation that are driven in the feasibility or feasibility stage of projects or works that lack an environmental management plan that has been properly prepared and approved and that is intended to drive rapprochement with the stakeholders that would be affected during the construction stage.

These expenses are stated at incurred cost.

(v) *Supplementary*

The "*Supplementary*" account includes the following lines:

- Such other expenses incurred by the Grupo ICE to guarantee the quality of construction and operation of works owned by third parties, which are neither considered preliminary nor pre-investment studies, as well as those transactions that due to their nature are not considered to be part of other operating costs and expenses.
- Subsequent mitigation and social compensation costs that exceed the environmental management plan, since they were not covered by the "baseline"[1] that was planned and controlled by Grupo ICE.

Supplementary operating expenses are stated at the incurred cost.

(vi) *Other expenses*

The "*Other expenses*" account includes expenses incurred to render services other than those provided during the normal course of business of Grupo ICE.

This account also includes costs incurred under agreements to sell services for construction works and technical services provided by Grupo ICE internally or with third parties, according to what was established and negotiated with the contractor.

These expenses are stated at incurred cost.

(m) Policies on financial income and expenses

(i) *Investment income*

The "*investment income*" account includes revenue from activities that are not part of the normal course of business of Grupo ICE, such as: income from holding securities or cash balances held in financial institutions.

[1] Term used in the Environmental Management Plan, related to the determination of existing conditions that impact construction of works where mitigation and social compensation measures are defined with their respective budget and timetable.

Earnings resulting from exchange fluctuations required to settle or update monetary items in foreign currency, both assets and liabilities, are recorded as "*investment income*".

Investment income is recorded at the value stated in the documentation supporting the transaction.

(ii) *Financial costs*

The following are recorded as *"Financial costs"*:

- Those originating in loans, the placement of securities (bonds), investments or any other obligation used for the management of the Grupo ICE.
- Financial costs are recognized during the period, unless they are directly attributable to the acquisition or construction of the Grupo ICE's productive assets, in which case they are capitalized as part of the cost of the asset.
- Losses resulting from exchange fluctuations required to settle or update monetary items in foreign currency, both assets and liabilities.
- The effect of variations in the liability line of the *"Valuation of financial derivative instruments"* account when these do not qualify as hedge accounting and are therefore recognized at fair value with changes recognized in the profit or loss, or otherwise in accordance with the measurement of the effectiveness of the instrument.

Financial costs are recorded at their amortized cost.

(iii) *Income from investments in other companies*

The Group records as "*Income from investments in other companies*" the returns obtained from investments in companies other than subsidiaries, associates, and joint ventures, when these are so declared.

Income from investments in other companies is recorded at the value stated in the documentation supporting the transaction (see note 7 (d) (iv)).

(in millions of colones)

Note 8. Property, plant and equipment, net

The property, plant and equipment account comprises the following general asset categories:

		As of March, 31 2020	As of December,31 2019*
Cost			
Operating assets	¢	7,657,149	7,651,522
Operating assets and other operating assets under finance leases		850,397	848,892
Other operating assets		401,184	398,438
Total operating assets - cost		8,908,730	8,898,852
Accumulated depreciation:			
Operating assets		3,969,879	3,909,136
Operating assets and other operating assets under finance leases		53,290	49,460
Other operating assets		310,574	308,724
Total accumulated depreciation of operating assets - cost		4,333,743	4,267,320
Operating assets, net		4,574,987	4,631,532
Other assets			
Construction work in progress		261,271	195,058
Inventory for investment projects		110,635	122,718
Total other assets		371,906	317,776
	¢	4,946,893	4,949,308

(*) Audited figures

(Continued)

(in millions of colones)

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

The general categories of the assets that are in operation are broken down below:

	As of December 31, 2018	Additions and capitalizations	Disposals	Adjustments, reclassifications, transfers	As of December 31, 2019*	Additions and capitalizations	Disposals	Adjustments, reclassifications, transfers	As of March 31, 2020
Land	¢ 171,982	2,010	-	14,902	188,894	106	-	-	189,000
Buildings	379,536	6,417	(153)	3,724	389,524	18	-	-	389,542
Hydroelectric power generation	2,368,216	7,162	(7,301)	(12,040)	2,356,037	526	(810)	4	2,355,757
Thermal power generation	147,075	18	-	(884)	146,209	-	-	-	146,209
Geothermal power generation (3)	512,528	193,760	(889)	7,181	712,580	-	-	-	712,580
Wind power generation	11,785	-	(369)	(501)	10,915	-	-	-	10,915
Solar power generation	12,732	166	-	-	12,898	23	-	-	12,921
Substations (2)	436,813	24,955	(413)	(1,992)	459,363	112	-	-	459,475
Transmission lines (2)	345,297	19,445	-	(3,699)	361,043	-	-	-	361,043
Distribution circuits	929,373	33,601	(6,506)	(316)	956,152	5,927	(1,173)	5	960,911
Public lighting	27,648	3,146	(871)	2	29,925	373	(261)	(1)	30,036
Control, communication and infrastructure equipment	282,185	6,926	(1,395)	(730)	286,986	276	(323)	(1)	286,938
Transport	717,205	27,290	(990)	(961)	742,544	339	-	-	742,883
Access (1)	469,266	69,074	(4,066)	670	534,944	175	-	-	535,119
Civil y electromechanical	203,403	5,632	(39)	(5,331)	203,665	312	-	-	203,977
Platforms	240,836	20,027	(1,059)	39	259,843	-	-	-	259,843
Subtotal operating assets	7,255,880	419,629	(24,051)	64	7,651,522	8,187	(2,567)	7	7,657,149
<u>*Operating assets and other operating assets under finance leases:*</u>									
Land	7,490	7	-	1	7,498	-	-	-	7,498
Buildings	29,940	697	-	-	30,637	-	-	-	30,637
Hydroelectric power generation	796,794	56	(12)	-	796,838	31	-	-	796,869
Transport	(11)	752	-	11	752	264	-	-	1,016
Access	8,095	3,462	-	(649)	10,908	1,210	-	-	12,118
Platforms	-	124	-	-	124	-	-	-	124
Furniture and equipment	2,335	(172)	(17)	(11)	2,135	-	-	-	2,135
Subtotal operating assets and assets under finance leases	844,643	4,926	(29)	(648)	848,892	1,505	-	-	850,397
Other operating assets	400,660	9,722	(12,323)	379	398,438	4,719	(1,954)	(19)	401,184
	¢ 8,501,183	434,277	(36,403)	(205)	8,898,852	14,411	(4,521)	(12)	8,908,730

(*) Audited figures

(1) The column titled “additions and capitalizations” includes, in the 2019 values, the 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) Included under the 2019 values of the “additions and capitalizations” column is the capitalization record of December 2019 of the Liberia – Papagayo – Nuevo Colón Project, (¢11,658 pertaining to Substations and ¢11.705 pertaining to transmission lines).

(3) Included under the “additions and capitalizations” column, in the 2019 values, is the amount of ¢193,340, for the capitalization of the Pailas II Geothermal Plant.

(Continued)

As of December 31, 2016, the assets in operation and other assets in operation are registered at their adjusted cost, which is a substitute of the historic cost plus the revaluation adjustment that was being applied to date based on the use of a price index. Hence, the value of such assets in operation and other assets in operation subject to tariff regulation, is known as the adjusted cost, which comprises the historical cost plus the revaluation adjustment. Likewise, the accumulated depreciation is computed by adding the depreciation linked to the revaluation to the depreciation applied using the historical cost basis.

The account "assets in operation under financial lease" pertain to the value of those productive assets under agreements known as financial leases. As of March 31, 2020, the following are such agreements:

i) *Reventazón Hydroelectric Power Plant Lease Agreement (hydroelectric generation):*

Agreement entered by and between UNO P.H. Reventazón, as lessor, and ICE, as lessee. The term of the agreement is of 20 years and the biannual installment is calculated using the amount of the debt service of the trust, as owed to the creditor banks under the UNO P.H. Reventazón trust (see note 19(c)).

This lease agreement originates from the terms of the trust agreement known as "Trust UNO PH Reventazón / ICE / Scotiabank / 2013 Agreement"; entered by and between ICE and Scotiabank de Costa Rica on May 2013, under which ICE acts as trustor and main beneficiary, and Scotiabank acts as trustee, and the persons identified as secondary beneficiaries in each notice of appointment of secondary beneficiary. The value of the agreement is of ¢239,500 and US$435. The term of the agreement is of 20 years (ending on 2033) and the biannual installment is calculated using the debt service amount of the Trust, as owed to the lender banks under the UNO P.H. Reventazón trust.

The main clauses of this trust UNO PH Reventazón / ICE / Scotiabank / 2013 agreement are the following:

a. Develop, continue to build, lease, operate and provide maintenance to the Reventazón Hydroelectric Project, as well as subscribe the necessary financing to fulfill such purposes.
b. Create an autonomous and independent estate that can support, and guarantee compliance of the obligations assumed by the trust.
c. Establish the guarantee trust in favor of which the trust's estate will be transferred, under which the trustor shall be this trust, the beneficiaries shall be the secured creditors and the trustee shall be the trustee under this trust. It is agreed that the trustee under the guarantee trust shall be Scotiabank.
d. Comply with the obligations of the trust, in accordance with the transaction documents, which include the payment to secured creditors that have granted credits or that have made investments in securities destined for the development, financing, construction, leasing, operation and maintenance of the Reventazón Hydroelectric Power Plant.

e. Once (i) the purposes for which this trust was created are met; (ii) the obligations under the transaction documents have been fulfilled; and (iii) the trustee receives the written approval of the representative of the secured creditors; transfer the estate of the Trust to the Trustor, in his capacity as main beneficiary.

f. Any other objective or end deriving from the nature of this trust agreement and the transaction documents that does not violate the principle of good business faith or relevant laws.

The estate of the trust shall comprise: (i) the entrusted assets of the trust in order to execute the Reventazón Hydroelectric Project; (ii) the works and equipment that is incorporated in the process to develop the Project; (iii) money or in-kind contributions made by the Trustor; (iv) resources obtained by the Trust from loan agreements, as well as resources collected product of the issuance, placement and management of securities under the trust, if they come to exist; (v) revenue earned from leasing the plant, as well as any other revenue that the Trust can earn in its normal operation; (vi) all such permits, authorizations, studies and documents that need to be subscribed to fulfill the trust's ends; (vii) trust accounts, investments, and their yields, as well as any other funds that the trustee manages under this trust; (viii) any other revenue earned by the trust and linked to the project, whether directly or indirectly; (ix) future property that is eventually included in the trust's estate; (x) the estate of the guarantee trust, once it has been returned to the trust, in its capacity as trustor, in compliance with the terms and conditions of the guarantee trust.

The trustee shall manage and, if necessary, dispose of the estate of the trust, in compliance with the purposes and provisions of the agreement, and so as to comply with all of the obligations under the trust.

All funds that the trust receives, for whatever cause or reason, must be immediately deposited by the trustee in the bank accounts of the guarantee trust, in compliance with the terms and conditions of the guarantee trust. The only exceptions to the foregoing are the funds from the bridge loan, which are to be deposited in the account that the trust states for this purpose.

ii) <u>*Lease Agreement - Telecommunications Tower (buildings):*</u>

On January 2010, the *Banco de Costa Rica* [BCR, its acronym in Spanish] and ICE made and entered into an agreement known as the "ICE-BCR Real Estate Securitization Trust", by means of which the *Banco de Costa Rica*, acting as trustee, undertook to obtain financial resources to acquire the property known as Centro Empresarial La Sabana (building). Such financing would be obtained by the Trust through the sale of securities known as "Securities/Certificates of the ICE-BCR Real Estate Securitization Trust". The agreement was for an amount of ¢27,550 The term of the agreement was of 20 years (it ends on 2030)

The purpose of this Trust was to provide ICE with a comprehensive physical space solution

to perform its activities. One of the terms of this Trust was to lease the equipped building to ICE. This gave rise to the irrevocable lease agreement with an option to purchase such

(Continued)

property, known as Centro Empresarial La Sabana, through which the aforementioned Trust leases to ICE the aforementioned real property for a 20-year term, at the end of which ICE shall be able to exercise the purchase option with a monthly lease fee that is based on the variables set forth in such lease agreement. (See note 19(c)).

With the amount received by the Trust for the lease of the property, the principal amount and yields from the securities placed in the stock market shall be paid, as well as those private issuances of securities and loans from national and international banks. In 2019, the monthly installment ranged between ¢202 and ¢211 (¢213 and ¢216 in 2019).

iii) *RANGE – Telecommunications Lease Agreement (access):*

In January 2014, *Banco de Costa Rica* (BCR) and ICE entered into an agreement referred to as: "ICE-RANGE/BCR Trust Agreement" to address the cost of the design, construction, and maintenance of the New Generation Access Network [RANGE, its acronym in Spanish], including the works related to the installation of equipment, channeling of civil and electromechanical works, duct construction, cable laying, and installation of fiber optic. As a result of such a Trust Agreement, ICE entered into a lease agreement with the Trust regarding the works to be developed by the latter. The term of the lease is 18 years (it ends on 2034), with monthly installments calculated in accordance with the formula set forth in the addendum to the aforementioned lease agreement. (See note 19 (c)). During 2019, the monthly installment ranged between ¢253 and ¢261 (¢253 and ¢257 in 2019).

In March 2020, the debt relating to the second stage of this lease agreement was capitalized. During this second stage priority districts of commercial interest will be identified to completely replace its copper network with new fiber-based access infrastructure with PON (Passive Optical Network) technology. The first installment paid in 2020 amounted to ¢334.

(in millions of colones)

(ii) Accumulated depreciation:

The accumulated depreciation of the property, plant and equipment is detailed below:

		As of December 31, 2018	Depreciation	Disposals	Adjustments, reclassifications, transfers	As of December 31, 2019*	Depreciation	Disposals	Adjustments, reclassifications, transfers	As of March 31, 2020
Buildings	¢	132,004	7,384	(110)	700	139,978	1,854	-	7	141,839
Hydroelectric power generation		1,069,987	41,692	(1,526)	69	1,110,222	10,210	(452)	(113)	1,119,867
Thermal power generation		79,196	3,138	-	(99)	82,235	785	-	-	83,020
Geothermal power generation		308,851	27,745	(557)	-	336,039	7,706	-	-	343,745
Wind power generation		10,943	44	(361)	(271)	10,355	11	-	-	10,366
Solar power generation		6,452	557	-	(1)	7,008	132	-	-	7,140
Substations		225,753	17,344	(190)	1	242,908	4,014	-	-	246,922
Transmission lines		114,897	10,846	-	(1)	125,742	2,687	-	-	128,429
Distribution circuits		346,242	29,502	(3,034)	1,715	374,425	8,007	(179)	-	382,253
Public lighting		14,296	1,664	(297)	(3)	15,660	444	(110)	-	15,994
Control, communication and infrastructure equipment		109,568	6,574	(1,202)	(298)	114,642	1,756	(286)	-	116,112
Transport		499,619	26,027	(971)	(5,702)	518,973	6,234	-	-	525,207
Access		387,419	49,259	(3,909)	5,255	438,024	11,024	-	-	449,048
Civil and electromechanical		186,832	12,311	(34)	(32)	199,077	2,778	-	-	201,855
Platforms		178,048	16,833	(1,059)	26	193,848	4,234	-	-	198,082
Subtotal operating assets		3,670,107	250,920	(13,250)	1,359	3,909,136	61,876	(1,027)	(106)	3,969,879
Operating assets and other operating assets under finance leases:										
Buildings		3,994	650	-	1,022	5,666	160	-	-	5,826
Hydroelectric power generation		24,652	11,851	-	(3)	36,500	2,964	-	-	39,464
Transport		9	12	-	-	21	50	-	-	71
Access		4,474	1,622	-	(458)	5,638	589	-	-	6,227
Platforms		-	11	-	-	11	3	-	-	14
Furniture and equipment		2,448	204	(9)	(1,019)	1,624	64	-	-	1,688
Total operating assets and assets under finance leases		35,577	14,350	(9)	(458)	49,460	3,830	-	-	53,290
Other operating assets		302,040	17,883	(11,676)	477	308,724	3,692	(1,838)	(4)	310,574
	¢	4,007,724	283,153	(24,935)	1,378	4,267,320	69,398	(2,865)	(110)	4,333,743

(*) Audited figures

(Continued)

(in millions of colones)

For the 2020 and 2019 periods, asset depreciation was calculated using the following useful lives.

	Useful life (in years)
Buildings	4 a 50
Plant, machinery and equipment for power generation	20 a 60
Plant, machinery and equipment for telecommunications	3 a 30
Plant, machinery and equipment for public lighting	10 a 30
Access roads	50
Machinery and equipment	3 a 20

(in millions of colones)

(iii) *Other assets*

The following table contains a detailed description of the assets classified as work in progress and inventory - investment for 2019 and as of March 2020:

		Construction work in progress	Internal consumption of services **	Subtotal	Inventory for investment projects	Total
As of December 31, 2018	¢	395,748	(489)	395,259	134,627	529,886
Additions		221,797	-	221,797	84,863	306,660
Disposals (a)		(23,530)	(239)	(23,769)	-	(23,769)
Capitalizations (b)		(406,308)	-	(406,308)	(96,772)	(503,080)
Interst and commissions		8,079	-	8,079	-	8,079
As of December 31, 2019*		195,786	(728)	195,058	122,718	317,776
Additions		72,797	672	73,469	13,134	86,603
Disposals		(56)	-	(56)	-	(56)
Capitalizations		(7,640)	-	(7,640)	(25,217)	(32,857)
Interst and commissions		440	-	440	-	440
As of March 31, 2020	¢	261,327	(56)	261,271	110,635	371,906

(*) Audited figures
(**) Internal consumption of electrical energy and telephony, incurred by the different areas of the ICE.

(Continued)

(a) It includes the retirement of the Borinquen Geothermal Project for a total of ¢7,073; the retirement of ¢5,315 associated to the Reinforcement of the South-Central Transmission, as well as the retirement of ¢526 corresponding to the Pailas II Geothermal Plant.

(b) It includes the capitalization of $193,914 in relation to the Pailas II Geothermal Plant;¢20,214 in relation to the South Ring Transmission project; ¢17,610 in relation to the acquisition of assets for the Higher Management; ¢17,272 in relation to the installation of Business Services; ¢15,476 in relation to improvements to the network; ¢12,469 in relation to the capitalization of the Liberia-Papagayo-Nuevo Colón; and other capitalizations under $10,000 applied in 2019, distributed in approximately 60 additional projects.

As of March 31, 2020, the cost of capitalized loans of Grupo ICE amounted to ¢440 (¢8,079 in 2019) and the capitalization rate used to determine the amount of the costs for loans that could be subject to capitalization was of 0.87% (4.28% in 2019).

Below you will find a description of the nature and of the main works under construction as of March 31, 2020 and December 31, 2019.

(a) *Stage II of the RANGE project*

The balance as of March 31, 2020 is of ¢36,287 (¢3,188 in 2019) and it includes the design, construction, and maintenance costs for the New Generation Access Network (RANGE E-II). During this second stage of the trust agreement priority districts of commercial interest will be identified to completely replace the copper network with new fiber-based access infrastructure with PON (Passive Optical Network) technology.

(b) *Borinquen Geothermal Project*

This project includes ¢36,153 as of March 31, 2020 (¢34,525 on 2019) in costs incurred in the development of the geothermal project known as Borinquen 1, located on the Guanacaste mountain range, on the pacific slope of the Rincon de la Vieja volcano. It will have an estimated power output of 52 MW, with an estimated cost of US$399 million.

(c) *Installation of Residential Services*

This project is enabled to record all costs incurred by technical personnel in the installation of new residential services throughout the country, the balance of which, as of March 31, 2020, is ¢14,993 (¢9,106 in 2019). The main objective in generating these solutions is to meet the needs of residential customers, who are known to demand next-generation services. services.

(d) *Expansion of LTE Network*

As of March 31, 2020, the balance of this project is ¢14,793 (¢12,621 in 2019), which pertains to costs incurred to execute the project known as "LTE Network", which has a total budget of US$47,6, and which purpose is to increase the broadband and data transmission speeds, per the demand and needs of the end user, so as to comply with the objective of the institution of continuing to work in the expansion of the network's coverage and capabilities, thus improving customer experience.

(e) *Last Mile Override*

This project includes the costs incurred to replace (migrate) the copper network of existing clients in the zones initially implemented in the RANGE Stage II and ICT Heredia projects, with a fiber optic network, all the way to the end customer (connected house), at their homes, businesses, companies or ventures, which allows the company to provide high-tech multiplay services with ultra-broadband, the balance of which, as of March 31, 2020, is ¢12,078 (¢8,083 in 2019).

(f) *Network Improvements*

The balance, as of March 31, 2020, of ¢11,023 (¢9,491 in 2019) pertains to a permanent execution project that affects the entire telecommunications system, as it allows to guarantee, through improvements, an adequate functioning and access of all systems and networks of the telecommunications system. The goal is to provide continuous communication services that allow to maintain systems within the parameters established by the regulatory body and to guarantee the continuity and quality of the network's systems.

(in millions of colones)

(g) *Chorotega – Central Pacific (FONATEL)*

The balance as of March 31, 2020 amounts to a total of ¢10,810 (¢10,374 in 2019). This project seeks to implement a network solution that allows to provide fixed voice and data services through a permanent wireless access point to a set of villages and public services centers such as elementary and secondary schools, health centers, CENCINAI [Centers for Comprehensive Child Care and Nutrition, in English], etc. for 16 cantons and a total of 66 districts, in response to the offer for the 7 tenders that are grouped as Chorotega Zone and Central Pacific Zone.

(iv) Temporarily inactive property, plant, and equipment

As of March 31, 2020, there are 12,223 assets that are depreciable by use, of which 3,078, which in turn have a book value of ¢20,483, have not reported any use during the 2019-2020 period.

Note 9. Intangible assets, net

Intangible assets are described below:

		As of March, 31 2020	As of December, 31 2019*
Intangible assets with a definite useful life:			
Licences, systems and applications (1)	¢	180,265	178,813
Submarine cable rights (2)		70,451	70,451
		250,716	249,264
Accumulated amortization:			
Licences, systems and applications (1)		(136,570)	(130,735)
Submarine cable rigths (2)		(45,700)	(44,457)
Accumulated amortization		(182,270)	(175,192)
Intangible assets with a definite useful life		68,446	74,072
intangible assets with an indefinite useful life:			
Rights of way and easements (3)		34,292	34,283
Others		2,813	2,813
		37,105	37,096
		105,551	111,168

(*) Audited figures

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A detail of intangible assets is shown below:

		Licenses, systems and aplications		Submarine cable rights		Rights of way and easeents		Others		Totals	
		As of March, 31	As of December, 31	As of March, 31	As of December, 31	As of March, 31	As of December, 31	As of March, 31	As of December, 31	As of March, 31	As of December, 31
		2020	2019*	2020	2019*	2020	2019*	2020	2019*	2020	2019*
Cost											
Opening balance	¢	178,813	135,360	70,451	66,392	34,283	29,809	2,813	2,813	286,360	234,374
Additions and Capitalizations		1,456	37,267	-	4,059	9	4,474	-	-	1,465	45,800
Tranfers		(4)	14,360	-	-	-	-	-	-	(4)	14,360
Disposals		-	(8,174)	-	-	-	-	-	-	-	(8,174)
		180,265	178,813	70,451	70,451	34,292	34,283	2,813	2,813	287,821	286,360
Accumulated amortization											
Opening balance		130,735	103,035	44,457	39,655	-	-	-	-	175,192	142,690
Amortization - expense		5,670	20,899	1,243	4,802	-	-	-	-	6,913	25,701
Amortization - investment		165	608	-	-	-	-	-	-	165	608
Transfers		-	14,360	-	-	-	-	-	-	-	14,360
Disposals		-	(8,167)	-	-	-	-	-	-	-	(8,167)
		136,570	130,735	45,700	44,457	-	-	-	-	182,270	175,192
	¢	43,695	48,078	24,751	25,994	34,292	34,283	2,813	2,813	105,551	111,168

(*) Audited figures

(Continued)

Amortization method

Grupo ICE uses the straight-line method to compute the amortization of intangible assets - licenses, systems and applications and submarine cable rights. This method computes the amortization as of the moment this asset is available for use, based on its useful life, which is established and reviewed by the technical areas defined by the sectors.

In the case of rights of way and easements that Grupo ICE holds, it was determined that no definite term exists to generate future benefits for Grupo ICE, and, therefore, these 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 that spans between 1 and 10 years.

(1) Licenses, systems, and applications

Licenses, systems, and applications are amortized in the costs and expenses accounts included in the consolidated statement of profit or loss as operation and maintenance expenses, operation and maintenance of equipment under financial lease, productivity management, administrative, marketing, and preliminary studies.

As of March 31, 2020 the balance of the account includes the Financial Administrative Modernization Program [PMAF, its acronym in Spanish], which; to that date, utilizes the main operating modules of the integrated ERP solution that represent 78% of all of the acquired modules (78% in 2019). During 2019 partial capitalizations were carried out in the amount of ¢20,408. This software is amortized in a period of 10 years, ending in 2029.

(2) Submarine cable right of use

The terms of such rights of use of submarine cables establish average terms of 16 years, extendable for an equal term or for the remaining useful life of the cable, whichever is shorter, at no cost for Grupo ICE, except for the monthly maintenance.

(3) Rights of way and easements

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

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

Consequently, the Management considers that these 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.

(in millions of colones)

Note 10. Equity investments

Equity investments are described below:

		As of March 31, 2020	As of December 31, 2019 *
Joint venture:			
Telecomunica, S.A. - Nicaragua; 500 ordinary shares with a par valuue of C$101,000; 50% ownership interest (1)	¢	994	1,014
Other investments at cost:			
Consorcio Cable Maya (2)		18,344	18,344
Toro III Hydroelectric Proyect Trust III (3)		11,203	11,203
Red Centroamericana de Telecomunicaciones S.A. 280 ordinary shares with par value of US$1,000: 10,36% ownership (4)		153	153
Other		54	54
		30,747	30,768
Equity Investments measured at fair value:			
Empresa Propietaria de la Red, S.A.; 6, 061 shares with a par value of US1,000: 10,36% ownership interest (5)		3,465	3,465
Valuation of equity investments (EPR) (5)		2,284	2,284
		5,749	5,749
	¢	36,496	36,517

(*) Audited figures.

(1) Tecomunica, S.A. – Nicaragua

ICE and ENATREL agreed to organize a company in Nicaragua, referred to as Tecomunica, S.A., to sell and commercialize telecom services.

Grupo ICE applied the equity method to measure the value of the joint venture it has with ENATREL. The following is a summary of the financial information of Tecomunica.

		As of March 31, 2020	As of December 31, 2019
Percentage ownership interest		50%	50%
Non-current assets:	¢	1,818	1,308
Current assets:		853	1,343
Non - current liabilities		(53)	(48)
Current liabilities		(631)	(575)
Net assets (100%)	¢	1,988	2,028
Group's share of net assets (50%)		994	1,014
Carrying amount of interest in joint venture	¢	994	1,014

		As of March 31, 2020	2019
Revenue	¢	379	355
Other income		14	2
Cost of sales		176	97
Operating expenses		243	232
Interest expense		(0)	(1)
Profit or loss and total comprehensive income (100%)		(26)	27
Profit or loss and total comprehensive income (50%)		(13)	14
Group's share of total comprehensive income	¢	(13)	14

(2) Cable Mayo Consortium

The investment pertains to a submarine cable system, Maya 1, that provides its services in the Caribbean to the United States, Mexico, Honduras, Cayman Islands, Costa Rica, Panama, and Colombia.

The construction and maintenance agreement for the Maya 1 submarine cable was signed in 1998, for a term of 25 years as of its commissioning (first quarter of the year 2000).). This is an agreement between 37 companies, for the construction of such submarine cable in the Caribbean. Grupo ICE held an equity interest of 20.87% during both years, in MIU (minimum investment units) rings.

(3) Hydroelectric Project Toro III Trust

The balance of ¢11,203 pertains to the investment made by ICE in the Toro III project. This investment was made jointly with the *Junta Administrativa del Servicio Electrico Municipal de Cartago* [JASEC, acronym in Spanish for Administrative Board of the Municipal Electricity Service of Cartago], as explained below.

On March 9, 2006, ICE and JASEC entered into a business partnership agreement for the design, financing, construction, and operation of the Toro III Hydroelectric Power Project, through which both entities hold equal interest in terms of rights and obligations. To implement this process, in January 2008 both entities agreed to establish a Trust with *Banco de Costa Rica*, in which ICE and JASEC act as trustors and beneficiaries and *Banco de Costa Rica* as trustee. One of the duties of the trustee was to obtain the financing and manage the resources to develop the infrastructure works needed for the generation of electricity, which shall be subsequently leased to ICE and JASEC. The construction of the project was awarded under an engineering and construction agreement entered into with ICE. The term of the Trust agreement is 30 years. According to the terms of this partnership agreement, ICE recognizes for JASEC 50% of the national power output of the plant and defines a series of duties managed under common agreement.

On January 26, 2012, ICE and JASEC entered into an addendum to the aforementioned trust agreement, whereby both entities agreed to provide at least 20% of the resources necessary to finance the Project, so that the trust obtained the necessary funds to finance the remaining amount. Therefore, ICE made an in-kind contribution (construction materials and labor), equal to ¢11,203. This contribution accounted for 10% of the resources necessary to finance Toro 3 Hydroelectric Project; the remaining 10% required to comply with the provisions contained in the addendum were provided by JASEC. The estimated initial value of the project amounted to US$214 million, which were financed with loans from *Banco de Costa Rica* and *Banco Popular de Desarrollo Comunal*, while a total of US$44 were provided by ICE and JASEC. Upon the completion of the works, the Trust entered into a lease agreement with ICE and JASEC, using an operating agreement.

According to this business partnership agreement, ICE and JASEC hold equal interest in terms of rights and obligations; they performed the activities and actions necessary

(Continued)

to design, finance, build, operate, and provide maintenance to Toro III Project. The amount reflected as equity investment pertains to amounts contributes 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 S.A., its acronym in Spanish]. The purpose of this company is to develop, finance, built, provide maintenance, operate, and exploit telecom services or services related to information and communication technologies. REDCA has issued a total of 2,700 shares of stock, each with a value of US$1,000 (one thousand dollars), and Grupo ICE owns a total of 300 shares (which amount to a 11.11% equity interest), of which 93.24% belong to ICE (280 shares) and 6.76% to CNFL.

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

Grupo ICE holds an ownership interest in Empresa Propietaria de la Red, S.A. [EPR, its Spanish acronym], which was selected to execute the "*Sistema de Interconexión Eléctrica de los Países de América Central*" [Central American Electric Interconnection System or SIEPAC, its Spanish acronym] Project. This investment is jointly made by Grupo ICE with the other entities in charge of energy management in the six Central American countries and three additional entities located in Spain, Colombia, and Mexico. Each of the nine countries has an interest of 11.11%, and no country can hold an equity interest greater than 15% in EPR.

EPR's share capital is comprised of 58,500 ordinary shares, each with a par value of US$1,000 (one thousand dollars). ICE owns 6,061 shares and CNFL owns 439 shares, for a total of 6,500 shares that amount to US$6.5 million, equivalent to ¢3,465 (an 11.11% equity interest) under the control of Grupo ICE. The shares are valued at their cost of acquisition.

As of March 31, 2020, and as a result of the adoption of IFRS International Financial Reporting Standard 9, the equity investment in EPR was measured at its fair value, resulting in an increase in the value of this investment in the amount of ¢2.284 (¢2.284 in 2019).

(in millions of colones)

Note 11. Notes receivable and other accounts receivable, net

Accumulated expenses and other accounts receivable are detailed below:

		As of March 31, 2020			As of December 31, 2019 *		
		Non-current	Current	Total	Non-current	Current	Total
Notes receivable:							
Loan to autonomous entities (1)	¢	1,903	141	2,044	1,883	140	2,023
Payment arrangements		589	2,885	3,474	587	2,917	3,504
Allowance for loan losses - Notes receivable (Businesses) (2)		(312)	(1,520)	(1,832)	(312)	(1,520)	(1,832)
		2,180	1,506	3,686	2,158	1,537	3,695
Non - trade recivables:							
Other non-trade receivables (3)		-	14,188	14,188	-	10,190	10,190
Government (4)		-	9,976	9,976	-	10,132	10,132
Interest accrued on investments		-	1,946	1,946	-	1,198	1,198
Other		-	2,212	2,212	-	1,398	1,398
		-	28,322	28,322	-	22,918	22,918
Other accounts recivable		-	(10,009)	(10,009)	-	(991)	(991)
Allowance for loan losses - Non - trade receivables (5)		-	(2,042)	(2,042)	-	(2,030)	(2,030)
		-	16,271	16,271	-	19,897	19,897
Tax credits and withholdings		-	16,029	16,029	-	12,574	12,574
Advances to creditors:							
Other recivables - advance payments (6)		-	31,350	31,350	-	29,532	29,532
Government		-	1,736	1,736	-	2,790	2,790
Employess		-	195	195	-	256	256
		-	33,281	33,281	-	32,578	32,578
	¢	2,180	67,087	69,267	2,158	66,586	68,744

(*) Audited figures.

(Continued)

(in millions of colones)

(1) Loans to autonomous entities

This mainly relates to a loan subscribed between ICE and the *Empresa Propietaria de la RED* [EPR] for the repayment of the loan IDB 1908, which amounts to US$4,5, equivalent to ¢2,044 in 2020 (US$4,5 equivalent to ¢2,023 in 2019), of which ¢1,903 pertain to the non-current portion of the loan and ¢141 pertain to the current portion (¢1,883 and ¢140 in 2019, respectively). The total term of the debt is of 25 years as of November 24, 2010, with a grace period of 5 years, payable biannually, with an annual variable interest rate equivalent to 3-Month LIBOR rate, plus a funding margin of 0.25% and an additional 0.80% in consideration of the IDB's credit margin, for a total of 3.52% (in 2018, payable biannually, at a variable annual interest rate equivalent to 6-Month LIBOR, plus a funding margin of 0.25% and the IDB's credit margin of 0.80%, for a total 3.47%), without any security interest.

(2) Impairment Loss Estimate – Notes Receivable (Business)

The transactions to estimate impairment losses of notes receivable are detailed below:

		As of March 31, 2020	As of December 31, 2019 *
Opening balance	¢	1,520	1,396
Allowance expense		-	124
Closing balance	¢	1,520	1,520

(*) Audited figures.

(3) General debtors - Non-trade receivables

As of March 31, 2020, the balance includes open balances for services without tariffs in the amount of ¢14,188 (¢10,190 in 2019), mainly for sales of commercial goods and services ¢6,356 (¢5,285 in 2019), engineering services ¢4,688 (¢3,550 in 2019), among others.

(4) Government

As of March 31, 2020, the ¢9,976 (¢10,132 in 2019) originated mainly from services provided in connection with Digital Government invoices and rents.

(5) Impairment Loss Estimate- Non-trade receivables

As of March 31, 2020, the transactions to estimate impairment losses of non-trade receivables are detailed below:

		As of March 31, 2020	As of December 31, 2019 *
Opening balance	¢	2,030	1,894
Used during the year		(8)	(123)
Allowance expense		19	260
Closing balance	¢	2,042	2,030

(*) Audited figures.

General debtors - advances

The balance of ¢31,350 (¢29,532 in 2019) includes a balance of ¢27,655 (¢20,102 in 2019) that is associated to the rental fee paid in advance in respect of the lease agreement of the Garabito thermal power plant, entered by and between ICE and the Banco de Costa Rica, in which the latter acts as trustee of the Garabito Securitization Trust.

According to such lease agreement, it came into effect in June 2010, under the understanding that the power plant would start operating as of that moment. As a result, ICE paid 7 installments in advance, in consideration of the months of June to December of 2010. Nevertheless, and due to a delay in the commissioning of the power plant, on November 19, 2010, the Management of the Executive Unit of the Garabito Thermal Power Plant and ICE agreed to apply the first installment (paid on June 2010), to the month of January 2011, and to continue accordingly until March 2022, moment when the term of the lease agreement will have run. Thereafter, as of March 2022, the ICE will be able to use the asset for seven months more than those established in the agreement. That way, the ICE will maintain a credit equal to 7 monthly installments, payable in advance, until March 2022, which amount to the sum of US$5,230 (in thousands) per month, for a total of US$36,610 (in thousands), equivalent to ¢27,655 (¢20,103 in 2019).

Note 12. Investments in financial instruments

Investments in financial instruments mainly correspond to investments measured at fair value with changes recorded in the statement of other comprehensive income, including bonds (debt securities), with returns ranging between 8.63% and 8.85% per annum for investments in colones, and 5.20% and 5.88% per annum for investments in US dollars (between 6.38% and 9.34% per annum in colones, and between 5.27% and 8.46% per annum in US dollars, during 2019).

The total value of this asset comprises investments in securities in colones in the amount of ¢6,695, as well as securities in US dollars in the amount of US$93,1, which is equivalent to ¢53,790 (¢23,717 in colones and ¢50,152 in US dollars, equivalent to US$86,4 in 2019), with maturities between January 2021 and April 2028 (January 2021 and April 2028 in 2019). The following table contains a detailed description of this account:

(in millions of colones)

		As of March 31, 2020	As of December 31, 2019 *
Investments at fair value thorugh other comprehensive income:			
Investments at fair value through other comprehensive income	¢	59,576	72,064
Fair value through other comprehensive income		909	1,805
	¢	60,485	73,869

(*) Audited figures.

As of March 31, 2020, ICE recognized fair value earnings in the amount of ¢909 (¢1.805 in 2019). This is the result of the valuation of fair value investments under IFRS 9 implemented in December 2019.

			As of March 31, 2020			
Issuer	Product name	Currency		Balance	Interest rate	Maturity date
Central Bank of Costa Rica	Fixed rate	Colones	¢	5,979	8.63%	04/28/2021
Florida ICE & Farm Company S.A.	Fixed rate	Colones		400	8.85%	07/03/2023
				6,379		
Government	Fixed rate	Us dollars		49,424	2.52% to 6.73%	05/25/2021 to 08/17/2022
Banco Nacional de Costa Rica	Fixed rate	Us dollars		2,903	5.88%	04/25/2021
Refinadora Costarricense de Petroleo (Recope)	Fixed rate	Us dollars		870	5.50% to 5.85%	12/05/2022 to 04/03/2028
				53,197		
Gain on measurement at fair value through other comprehensive income (FVOCI)				909		
			¢	60,485		

			As of December 31, 2019 *			
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 de 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	Dólares		47,823	5.52%	05/25/2021 to 08/17/2022
Refinadora Costarricense de Petroleo (RECOPE)	Fixed rate	Dólares		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		

(*) Audited figures.

Note 13. Guarantee and Savings Fund

The "Guarantee and Savings Fund" is a separate vehicle created in conformity with Article 17 of Act No. 449, dated April 8, 1949; Act No. 3625, dated 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 and therefore uses ICE's legal capacity, for all legal purposes. The Guarantee and Savings Fund manages the contributions made by ICE and its employees, as applicable, to the Supplementary Pension Regime, the Guarantee and Savings Regime, the Mutual Fund, and the Legal 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 resources is performed through separate vehicles and identified as the Guarantee and Savings Fund, the Supplementary Pension Regime, the Mutual Fund, and Legal Benefits Fund.

(Continued)

(in millions of colones)

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 advance withdrawals, pension rights, settlements and actuarial adjustments. The following table contains a detailed description of this account:

		As of March 31, 2020	As of December 31, 2019 *
Contribution to the Supplemental Pension System	¢	133,994	133,412
Contribution to the Guarantee and Savings Fund		88,902	89,233
	¢	222,896	222,645

(*) Audited figures.

The liability or the obligation related to pensions in process of payment, and the net assets available to cover future pension benefits of active workers, are reflected in the accounting records of the Supplementary Pension Regime. This vehicle is subject to the regulations issued by the Superintendency of Pensions [SUPEN, its Spanish acronym], the entity that regulates the country's pension system.

(in millions of colones)

Note 14. Inventories, net

Inventories are detailed as follows:

		As of March 31, 2020	As of December 31, 2019
Operating inventory	¢	98,819	103,570
Materials in transit for operation		8,883	12,676
Materials and equipment held in custody		2,577	364
		110,279	116,610
Allowance for valuation of inventory		(26,981)	(29,923)
	¢	83,298	86,687

(*) Audited figures.

The following table includes the estimations used for the appraisal of inventories

		As of March 31, 2020	As of December 31, 2019
Opening balance	¢	29,923	29,974
Used during the year		(2,440)	(2,757)
Allowance expense		(461)	1,809
Net realizable value		(41)	(1,601)
Closing balance	¢	26,981	29,923

(*) Audited figures.

(in millions of colones)

Nota 15. Temporary investments

Temporary investments measured at adjusted cost are detailed below:

		As of March 31,	As of December 31,
		2020	2019*
Bonds with public entities	¢	82,004	60,970
Central bank bonds		30,862	26,592
Monetary stabilization bonds		24,198	22,592
Bonds with private entities		2,362	5,855
Term certificates of deposit		2,318	2,295
Certificate of deposit issued by a mutual fund		-	2,000
Costa Rican External debt bonds		12	12
	¢	141,756	120,316

(*) Audited figures.

(in millions of colones)

A detailed description of the characteristics of the temporary investments is included below:

Issuer	Type of financial instrument	Currency	As of March 31, 2020		
			Balance	Interest rate	Maturity
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones	24,596	6,51%-9,50%	24/06/2020 al 23/03/2021
Government	Variable interest	Colones	9,995	6.82%	24/03/2021
Financiera Desyfin	Fixed-interest borrowings	Colones	2,500	9.65%	24/07/2020
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	Colones	2,001	6.70%	16/09/2020
Banco Nacional de Costa Rica	Fixed-interest borrowings	Colones	2,084	9.15%	29/01/2021
Banco de Costa Rica	Certificate of deposit	Colones	662	3% - 7,92%	10/07/2019 -30/11/2023
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%	26/04/2019 - 30/11/2023
			42,220		
Government	Fixed-interest borrowings	US dollars	20,879	4,83% - 10,00%	27/05/2020 al 18/11/2020
Banco de Costa Rica	Fixed-interest borrowings	US dollars	17,380	2,26% - 2,60%	25/08/2020 al 25/01/2021
Banco Nacional de Costa Rica	Fixed-interest borrowings	US dollars	11,586	7.50%	24/02/2021
Financiera Desyfin	Fixed-interest borrowings	US dollars	9,852	5,15% - 5,25%	11/06/2020 al 10/12/2020
Banco Improsa	Fixed-interest borrowings	US dollars	8,694	3,3% - 4,20%	9/10/2020 al 10/02/2021
Banco Promérica	Fixed-interest borrowings	US dollars	8,693	2,85% - 4,75%	3/07/2020 al 17/03/2021
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	US dollars	5,814	2,50% - 3,00%	11/02/2021 al 19/02/2021
Banco PRIVAL,S.A. (Antiguo BANSOL Banco de Soluciones)	Fixed-interest borrowings	US dollars	4,636	0.035	7/08/2020 al 24/02/2021
Banco Cathay	Fixed-interest borrowings	US dollars	4,347	3,80% - 4,60%	6/08/2020 al 25/02/2021
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	US dollars	2,318	3.10%	06/11/2020
Banco Nacional de Costa Rica	Certificate of deposit	US dollars	2,046	1,30% - 4,85%	30/04/20 - 09/08/21
Banco Scotiabank de Costa Rica, S.A.	Fixed-interest borrowings	US dollars	2,021	5.00%	21/08/2020
Banco Internacional de Costa Rica (BICSA)	Certificate of deposit	US dollars	1,159	3.50%	20/04/2020
Banco de Costa Rica	Certificate of deposit	US dollars	111	2,66% - 4,30%	01/01/2020 - 31/01/2025
			99,536		
			141,756		

(Continued)

(in millions of colones)

Issuer	Type of financial instrument	Currency		As of December 31, 2019 Balance	Interest rate	Maturity
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones	¢	22,592	6,51% - 9,75%	19/03/2020 - 02/11/2020
Financiera Desyfin	Fixed-interest borrowings	Colones		5,501	9,65% - 10,50%	19/02/2020 - 24/07/2020
Banco de Costa Rica	Fixed-interest borrowings	Colones		5,000	9.15%	25/02/2020
Government	Zero-coupon Central Bank bon	Colones		3,932	8.70%	16/03/2020
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	Colones		3,501	6,70% - 7,50%	17/02/2020 - 16/09/2020
Banco BAC San José, S.A.	Fixed-interest borrowings	Colones		2,515	6,75% - 6,80%	13/01/2020 - 26/03/2020
Government	Fixed-interest borrowings	Colones		2,005	7.59%	25/03/2020
Banco Cathay	Fixed-interest borrowings	Colones		2,000	10.50%	06/03/2020
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%	04/03/2020
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% - 7,92%	10/07/2019 -30/11/2023
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%	26/04/2019 - 30/11/2023
				54,093		
Government	Fixed-interest borrowings	US dollars		20,667	4,83% - 10,00%	27/05/2020 - 18/11/2020
Financiera Desyfin	Fixed-interest borrowings	US dollars		12,622	5,15% - 5,70%	26/02/2020-10/12/2020
Banco Promérica	Fixed-interest borrowings	US dollars		8,606	4,10% - 5,20%	13/03/2020 - 18/09/2020
Banco Improsa	Fixed-interest borrowings	US dollars		5,738	4.20%	09/10/2020
Banco Cathay	Fixed-interest borrowings	US dollars		5,451	4,25% - 5,50%	24/02/2020 - 25/08/2020
Banco PRIVAL,S.A. (Antiguo BANSOL Banco de Soluciones)	Fixed-interest borrowings	US dollars		4,589	3,45% - 5,5%	20/02/2020 - 7/08/2020
Banco Nacional de Costa Rica	Certificate of deposit	US dollars		2,986	1,30% - 4,85%	30/04/20 - 09/08/21
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	US dollars		2,295	3.10%	06/11/2020
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%	20/04/2020
Banco de Costa Rica	Certificate of deposit	US dollars		111	2,66% - 4,30%	01/01/2020 - 31/01/2025
				66,223		
				120,316		

(*) Audited figures.

(Continued)

(in millions of colones)

Nota 16. Accounts receivable, net

Trade receivables are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Borrowers in general	¢	171,738	150,387
Government		46,929	31,857
Private banking entities		192	196
Other		1,937	358
		220,796	182,798
Allowance for losses on impairment of trade receivables		(36,115)	(34,365)
	¢	184,681	148,433

(*) Audited figures.

The transactions to estimate losses due to the impairment of commercial debtors are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Opening balance	¢	34,365	42,152
Used		771	(28,494)
Loss on impainment recognized during the year		979	20,707
Closing balance	¢	36,115	34,365

(*) Audited figures.

Grupo ICE's exposure to credit and market risk, as well as its impairment losses related to commercial debtors.

Nota 17. Prepaid expenses

The prepaid expenses are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Mobile terminals and devices	¢	17,742	22,885
Debt interests		7,847	16,694
Other		143	282
	¢	25,731	39,861

(*) Audited figures.

(1) Debt interest

As of March 31, 2020, the debt interest of Grupo ICE amounted to ¢7,847 (¢16.694 in 2019), which pertained to the financial cost of the obligation that arose out of the financial lease agreement executed by Grupo ICE under the Reventazón Hydroelectric Project Trust (see notes 8 and 19 (c)).

(in millions of colones)

Nota 18. Cash and cash equivalents

The group's cash and cash equivalents are detailed in the following table:

		As of March 31,	As of December 31,
		2020	2019*
Cash on hand and in banks	¢	252,278	177,994
Cash equivalents		15,700	25,418
	¢	267,977	203,412

(*) Audited figures.

(in millions of colones)

A detailed description of the cash equivalents is included below:

Classification	Currency	Issuer	Type of financial instrument		As of March 31, 2020 Balance	Interest rate	Maturity
Fair value through profit or loss	Colones	Popular SAFI	Investment funds	¢	3,895	3,37%-4,77%	31/07/2018- Vista - 31/10/2019-Vista
Fair value through profit or loss	US dollars	Popular SAFI	Investment funds		2,260	1,79%-4,62	08/09/2017- Vista 07/06/2019- Vista
Amortized cost	Colones	BN FONDOS	Investment funds		206	1.98%	30/10/2018- Vista
Amortized cost	US dollars	Banco Internacional de C.R. -Miami-	Overnight		4,610	6,82% - 9,15%	31/12/2020
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Certificate of deposit		4,512	1.00%	21/11/2019 - 06/01/2020
Amortized cost	US dollars	Government	Investment funds		143	2.00%	11/09/2019 - 11/03/2020
Amortized cost	US dollars	Banco de Costa Rica (BCR)	Certificate of deposit		74	1,75%-4,30%	2/08/2017- 31/01/2025
				¢	15,700		

Classification	Currency	Issuer	Type of financial instrument		As of December 31, 2019* Balance	Interest rate	Maturity
Fair value through profit or loss	Colones	Popular SAFI	Investment funds	¢	3,895	3,37%-4,77%	31/07/2018- Vista - 31/10/2019-Vista
Fair value through profit or loss	US dollars	Popular SAFI	Investment funds		2,260	1,79%-4,62	08/09/2017- Vista 07/06/2019- Vista
Amortized cost	Colones	BN FONDOS	Investment funds		206	1.98%	30/10/2018- Vista
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Overnight deposit		13,267	1.00%	31/12/2020
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Certificate of deposit		4,512	1.00%	21/11/2019 - 06/01/2020
Amortized cost	US dollars	Government	Repurchase operations		1,061	3.64%	13/01/2020
Amortized cost	US dollars	Government	Investment funds		143	2.00%	11/09/2019 - 11/03/2020
Amortized cost	US dollars	Banco de Costa Rica (BCR)	Certificate of deposit		74	1,75%-4,30%	2/08/2017- 31/01/2025
				¢	25,418		

(*) Audited figures

(in millions of colones)

Nota 19. <u>Financial debt</u>

a. ***Debt securities payable***

The debt securities payable issued by Grupo ICE are included in the following table:

	Currency	Interest rate	Year of maturity		As of March 31, 2020			As of December 31, 2019*		
					Non-current	Current	Total	Non-current	Current	Total
Internal debt:										
Bond issue	¢	Variable between 7,40% and 9,82% (2019: variable between 7,45% and 9,98%) and fixed 11,41%, in 2020 and 2019	2020-2035	¢	262,337	19,992	282,329	262,371	19,988	282,360
Bond issue	US$	Fixed between el 5,97% and el 7,65%, in 2020 and 2019	2020-2027		261,010	43,466	304,476	258,439	43,038	301,477
External debt:										
Bond issue	US$	Fixed between 6,38% and 6,95%, in 2020 and 2019	2021-2043		576,683	-	576,683	569,308	-	569,308
(*) Audited figures.				¢	1,100,030	63,458	1,163,488	1,090,118	63,026	1,153,144

Debt securities payable (bonds) in US dollars amount to US$1,518 as of March 31, 2020 and December 31, 2019. These obligations are backed with a generic guarantee issued by ICE.

(in millions of colones)

b. ***Notes payable***

Notes payable, arising from loans in colones, US dollars and yens, are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Internal debt:			
Colones	¢	151,193	155,873
US dollars		44,423	44,199
External debt:			
Colones		99,189	99,189
US dollars		586,274	574,248
Yen		116,472	112,650
		997,551	986,159
Non-current		885,861	899,030
Current		111,690	87,129
	¢	997,551	986,159

(*) Audited figures.

Note 31 includes information about the Group's exposure to interest rate, foreign exchange, and liquidity risks.

The following table includes a description of the notes payable by type of creditor:

		As of March 31 2020	As of December 31, 2019*
Internal debt:			
State-owned banks	¢	191,815	196,271
Private banks		3,801	3,801
External debt:			
Private banks		799,436	783,083
Other creditors		2,499	3,004
	¢	997,551	986,159

(*) Audited figures.

Notes payable in US dollars amounted to US$1,045 and in Yens to ¥21,742 (US$1,079 and ¥21,249 in 2019).

(Continued)

(in millions of colones)

Total non-current notes payable, which amount to ¢885,861 (¢899,030 in 2019) is included in 2020 in the amount of ¢822,903 (¢839,775 in 2019), linked to the electricity business, and ¢62,958 (¢59,255 in 2019), linked to the telecoms sector. Regarding total current notes payable, the ¢111,690 (¢87,129 in 2019) during 2020 can be broken down as follows: ¢82,951 (¢74,020 in 2019) pertain to the electricity sector and ¢28,739 (¢13,109 in 2019) pertain to the telecoms sector.

The characteristics of these notes payable are detailed below:

	Interest rate	Currency	Term
Internal debt:	Variable between 8,15% and 9,70%, in 2020 and 2019.	¢	Maturing between january 03, 2022 and october 23, 2045
	Variable between 6,97% and 7,64% (2019: variable between 7,15% and 7,80%).	US$	Maturing between september 05, 2033 and september 13, 2043
External debt:	Variable between 7,50% and 7,70%, in 2020 and 2019.	¢	Maturing between may 25, 2034 and 14 october, 2037
	Variable between 2,93% and 6,59% (2018: variable between 2,93% and 6,92%) Fixed between 0,70% and 6,40%, in 2020 and 2019.	US$	Maturing between july 07, 2020 and march 15, 2044
	Fixed between 0,60% and 2,20%, in 2020 and 2019.	JPY	Maturing between april 20, 2026 and juny 20, 2057

Total notes payable amounted to ¢997,551 (¢986,159 in 2019), and include loans in the amount of ¢710,840 (¢702,635 in 2019) and a generic guarantee of ICE (no security interest) and ¢286,711 (¢283,524 in 2019) secured by the Government of the Republic.

Credit agreements usually establish a series of commitments in terms of environment, law, finances, operations, and business, among others, that the debtor must oversee and that are typically known as covenants. In the particular case of ICE, some of the agreements executed to date include "Positive covenants" and "Negative covenants," which establish commitments ICE must unavoidably comply with and restrictions or limitations to certain acts, that generally require previous approval from the creditor entity. Financial covenants are usually related to financial ratios based on the EBITDA (in some cases including lease payments), such as EBITDA coverage ratio, net debt to total assets, etc.

(Continued)

Some of the loan agreements also establish clauses called:

a) Cross Default: these indicate that upon execution of the agreement, ICE expressly and irrevocably accepts that failure to comply with its payment and/or other obligations, terms and conditions of the credits that Grupo ICE has with other creditors, are considered causes of early termination of the loan with the "Cross Default" clause, as well as of all the loans of such creditor.

b) Pari Passu Obligations: whereby ICE agrees that its obligations under the corresponding agreement and its guarantees constitute, in every moment, obligations with a payment priority at least equivalent (pari passu) to any other obligations, current or future, arising from any of the debts that Grupo ICE assumes (other than any debt that legally ranks higher in preference).

In addition, Grupo ICE has the obligation to comply, among others, with the following general clauses, which are detailed in some of the loan agreements:

a) It will not merge or consolidate with any person, or will allow any of its subsidiaries to do so, except that: (a) any subsidiary of the Borrower (ICE) might merge or consolidate with any other subsidiary of the Borrower, and (b) any subsidiary of the Borrower merges with the Borrower, and (c) any merge or consolidation approved by the Creditor (Bank), provided that, in each case, noncompliance had not occurred and continued at the moment of such proposed transaction, or that noncompliance arises from it.

b) It will not sell, lease, transfer or otherwise dispose, nor will it allow that any subsidiaries sell, lease, transfer or otherwise dispose of assets, nor will it grant any option or any other right to buy, lease or otherwise acquire assets, except by (1) selling inventory in the ordinary course of business, (2) a transaction authorized by the Bank, and (3) selling assets at their fair value for a total amount that does not exceed US$20 million (or its equivalent in other currencies) in any year.

c) It will not enter into any agreement by virtue of which it agrees or is required to share with third parties the income that it directly or indirectly obtains from the works built with financing obtained from the entities shown on the previous table.

d) It will not create or accept the existence, nor will it allow that any subsidiaries create or accept any encumbrance levied upon any of its property, whether now or in the future owned by ICE , nor will it transfer or let any subsidiaries transfer any right to receiving income from the works that will be financed by obligations incurred with the Bank.

e) It will have and make each of its subsidiaries acquire insurance with responsible or reputable insurance associations or companies, in the amounts and with the coverages usually engaged by companies with similar trades, and that have similar properties in the same general areas in which the Borrower or such subsidiary operate.

f) It will comply and make that each of its subsidiaries substantially comply with, the laws, rules, regulations and applicable orders, and such compliance shall include, among others, compliance with environmental laws, except when it is not reasonably expected that noncompliance has a substantial negative effect.

As of March 31, 2020, the financial covenants related to the debt agreements comply with the established limits.

(Continued)

(in millions of colones)

c. ***Financial leases obligations***

The balances of the obligations relating to financial leases are detailed below:

	Interest rate	Year of maturity		As of March 31, 2020 Non-current	Current	Total	As of December 31, 2019* Non-current	Current	Total
Trust in colones									
La Sabana Businees Center	Variable 8,50% (2019: variable 8,70%)	2030	¢	15,780	1,116	16,896	16,168	989	17,157
Range	Variable between 5,33% and 8,60% (2019: variable del 8,60%)	2034		54,416	1,698	56,115	21,342	779	22,121
UNO P.H. Reventazón	Variable 8,75%, in 2020 and 2019	2033		206,553	7,632	214,185	206,553	7,632	214,185
Trust in US dóllars									
UNO P.H. Reventazón	Variable 7,41% (variable 6,94%, in 2019)	2033		214,761	10,607	225,367	212,614	10,501	223,115
Vehicles	Variable 8,65% and fixed between 5,95% and 9,30%, in 2019	2020-2022		76	24	100	79	24	103
Physical space	Fixed between 5,01% and 9,30%, in 2019	2022-2034		270	170	440	281	160	441
Equipments	Fixed between 5,01% and 9,30%, in 2019	2020-2033		108	25	133	108	25	133
			¢	491,963	21,273	513,236	457,145	20,110	477,255

(*) Audited figures.

Financial lease obligations in US dollars amounted to US$389 as of March 31, 2020 and as of December 31, 2019.

The balances detailed herein are related to obligations derived from the financial lease agreements entered by ICE with the Trusts PH Reventazón, ICE/BCR Real Estate Securitization Trust , ICE-Range-BCR Trust, associated with the Reventazón Hydroelectric Plant, Telecommunications Building (*Centro Empresarial La Sabana*), and the design, construction, and maintenance of the new generation access network, respectively. In the case of P.H. Reventazón, the liability is associated with the balance of the obligations in colones and US dollars that the Trust assumed with its creditors (see note 8 (i)).

(Continued)

In relation to the P.H. Reventazón Trust (see note 8), dated December 20, 2013, the Onshore Trustee (Borrower) of the Trust, the Senior Lenders (national and foreign banks) under the Trust, and the Intercreditor Agent (the Bank of New York Mellon), entered into a Common Terms Agreement-CTA, which established, among other things: the disbursement conditions, representations and warranties, covenants, duties and obligations, default events, and a series of environmental, legal, fiscal, financial, operational and business covenants (obligations to do and to abstain from doing) that the debtor (Trust) has to fulfill. On December 20, 2013, ICE signed a Side Letter Agreement with the Trust, the Bank of New York Mellon as Intercreditor Agent and the Onshore Trustee, establishing, among other things, a series of covenants (obligations to do and to abstain from doing) that it has to fulfill in connection with its financial lease obligations associated with the P.H. Reventazón Trust.

(Continued)

(in millions of colones)

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

		Liabilities			
		Securities payable	Loans payable	Finance lease obligations	Total
Balance as of December 31, 2019*	¢	1,153,144	986,159	477,255	2,616,558
Changes in cash flows from financing activities					
Disbursements		-	20,051	34,265	54,316
Amortization		-	(16,603)	(544)	(17,147)
Amortized cost		1,537	6,487	-	8,024
Total changes in cash flows from financing activities		1,537	9,935	33,721	45,193
Effect of changes in exchange rates		8,807	1,457	2,260	12,524
Balance as of March 31, 2020	¢	1,163,488	997,551	513,236	2,674,275

		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 due to 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

(*) Audited figures.

(Continued)

(in millions of colones)

Nota 20. Employee benefits - legal benefits

Legal benefits provided to employees are described below:

		As of March 31, 2020			As of December 31, 2019*		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits	¢	73,989	3,199	77,188	72,037	8,023	80,060

(*) Audited figures.

A detail of these employment obligations is presented below:

		As of March 31, 2020
Opening balance	¢	80,060
Expense for the year - investment		465
Expense for the year - operation		5,673
Used during the year		(7,454)
Incentives 2019		(1,557)
Total	¢	77,188

		As of December 31, 2019*
Opening balance	¢	49,948
Expense for the year - investment		2,402
Expense for the year - operation		1,057
Used during the year		(10,096)
Adjustments due to effect of actuarial study		34,854
Incentives 2019		1,895
Total	¢	80,060

(*) Audited figures.

On December 2018, the Strengthening of Public Finances Act, no. 9635, came into force, and with it also Transitory Section XXVII, Chapters I and Title V, and provides that officials entitled to unemployment aid under legal instruments other than collective labor agreements when the Act came into force (December 4, 2018) and that have at least twelve years working for the company are entitled to an unemployment aid equivalent to 12 years. Other officials shall be entitled to a maximum of 8 years of unemployment aid. Previously, ICE based its legal benefits on the Employee Bylaws, which established, in Chapter XXXVII, the provisions governing the payment of benefits for employment termination (provided that the termination is with employer liability) (unemployment aid), according to their tenure and as provided for in those bylaws.

Until December 31, 2017, the sum of years recognized before and after the Worker Protection Act came into force could not exceed 24 year of unemployment aid, which amounted to 40 years of continuous employment at ICE. Starting on 2018, with the entry into force of Act 9635, this cap was modified.

Some of the provisions set out in such Employee Bylaws are as follows:

i. The employee whose employment agreement is terminated with recognition of his/her legal benefits shall be entitled to the payment of unemployment aid, according to his/her tenure.

ii. The payment of legal benefits is made in a composite way, considering whether employees were admitted before or after the Worker Protection Act on March 2001, in accordance with the following criteria:

   a. The time worked before the Worker Protection Act shall be recognized at the rate of one month's salary for each year worked or fraction greater than six months. When such a time exceeds eight years, the employee shall be entitled to one month’s salary for every two years worked after the eighth year.
   b. Any time worked after the Worker Protection Act came into force shall be paid with the amount of salary days provided for in article No. 29, as amended, of the Labor Code, and in accordance with the scale set out in such Code. In no case may such unemployment aid compensate more than the last 8 years of the employment relationship. This is applicable for employees working under modality 08 governed by the Autonomous Employment Regulations [RAL] of ICE. In this regard, and until December 31, 2017, the ICE used to pay up to 24 years of unemployment aid, which amounted to 40 years of continuous employment, to the rest of its employees, in accordance with the bylaws. The unemployment aid should be paid even if the former employee immediately starts working for another employer.

The net obligation of ICE, in relation to benefit plans for employees (legal benefits - unemployment aid) is computed separately for each plan, estimating the value of the future benefit that employees have accrued and are entitled to in their current and previous periods, discounting such value and subtracting the fair value of the plan’s assets (unemployment aid advances, if any).

Computation of employee benefits obligations is done annually by a qualified actuary using the projected unit credit method, also known as the accumulated benefits method or the years served method. When the computation results in a possible asset for ICE, the asset recognized is limited to the present value of the economic benefits available as future reimbursements of the plan or otherwise as reductions in future contributions for such plan. To calculate the present value of economic benefits, minimum financing requirements must be considered.

The new measurements of defined net benefits liabilities (employee benefits), that include actuarial profit or losses, the yield of the asset’s plan, if any, (excluding interest) and the effect of the asset's ceiling (if any, excluding interest), are all immediately recognized as other comprehensive income. The ICE determines the interest expense incurred as a result of the net employee benefits liability of the period by applying the discount rate used to measure the obligation for benefits to employees at the beginning of the reporting period in respect of the net employee benefits liability, considering any change in the employee benefits liability during the period as a result of the contributions and payments of benefits. The interest expense and other expenses related to employee benefit plans are recognized in the results.

(in millions of colones)

Whenever the benefits of a plan are modified or decrease, the resulting change in the benefit that is related to the past service or the profit or loss for the decrease is immediately recognized in the results. The ICE acknowledges profit or loss in the settlement of employee benefit plans whenever these occur.

It is recorded as a current provision for employee benefits (legal benefits). The estimated sum is required to make unemployment aid payments to employees, in a period of one year or less, in accordance with the result of the actuarial study of such benefit.

Nota 21. Accounts payable

Accounts payable are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Government	¢	17,713	15,255
Taxes and withholdings payable		17,121	15,573
Other creditors		141,775	98,379
		176,609	129,207
Less non-current portion	¢	(6,843)	(6,845)
	¢	169,766	122,362

(*) Audited figures.

Note 31 includes information about the Group's exposure to interest rate, foreign exchange, and liquidity risks.

(in millions of colones)

Nota 22. Deferred income

Deferred income is described below:

		As of March 31, 2020			As of December 31, 2019*		
		Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢	-	5,379	5,379	-	5,046	5,046
Government grants (2)		8,779	281	9,060	8,959	281	9,240
Transfer of spare parts - materials (3)		-	10,109	10,109	-	9,961	9,961
Other		-	8,477	8,477	-	8,340	8,340
	¢	8,779	24,246	33,025	8,959	23,628	32,587

(*) Audited figures.

The following is a description of the nature of the main types of deferred income recorded by Grupo ICE:

(1) Prepaid mobile:

It corresponds to the income received in advance related to the sale of prepaid mobile services, which has not been consumed by clients as of the closing date. The income received for prepaid mobile services is recognized in the consolidated balance sheet when Grupo ICE receives the money from its clients and wholesalers. This income is thereafter recognized in the consolidated statement of profit or loss as end users use the services.

(2) Government subsidies:

Within the framework of the "Cool Earth Partnership" Japanese initiative, the Japanese government granted Grupo ICE a donation of approximately US$10.5 to build the "Photovoltaic System" located in Sabana Norte, with a capacity of 3KW expected to generate 3.5 Kh; and from the "Solar Park of Miravalles", located in la Fortuna de Bagaces, with an installed capacity of 1MW, expected to generate 1.2Gwh. Grupo ICE recognizes the subsidies of the governments, local or international, in the consolidated statement of financial position once they are granted to it, and are systematically transferred to the consolidated statement of profit or loss according to the useful life of the asset related to the received subsidy.

(in millions of colones)

Additionally, funds from the Project and Program Management Trust of the National Telecommunications Fund [FONATEL, its Spanish acronym] are also recorded. The funds are aimed at directly subsidizing the voice and broadband Internet services rendered to centers that provide public services in the defined service area.

(3) Transfer of ownership of spare parts – materials:

This pertains to the transfer of ownership on behalf of Grupo ICE of the costs of spare parts, assets and tools required to provide maintenance to the Toro III and Garabito Plants, over which ICE did not make any expenditure. This income is realized on the statement of profit or loss once the contractually established maintenance services are provided and the inventories transferred to ICE are used.

Nota 23. Other liabilities

Other liabilities are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Security deposits	¢	57,889	56,968
Deposits from private individuals or companies		11,041	11,762
Valuation of financial instruments		(1,005)	(1,935)
		67,925	66,795
Less non-current portion		(57,889)	(56,968)
	¢	10,036	9,827

(*) Audited figures.

The balance of security deposits is equal to ¢57,889 (¢56,968 in 2019), of which ¢31,797 belong to the electric sector (¢30,988 in 2019), in consideration of amounts collected from clients, equal to one month of power and energy invoicing, as a means to guarantee the payment of services, and ¢26,092 (¢25,980 in 2019) associated to the telecom sector, which belong to deposits requested to customers to secure the services being rendered, both for mobile, fixed and roaming telephone services.

(in millions of colones)

Nota 24. <u>**Accrued employer obligations payable**</u>

Accrued employer obligations payable are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Vacation	¢	22,870	24,682
Statutory Christmas bonus		8,535	1,847
Back-to-school bonus		5,141	21,608
Third and fifth biweekly salary		1,235	281
Occupational hazard insurance		28	69
	¢	37,809	48,487

(*) Audited figures.

(in millions of colones)

A detail of these employment obligations is presented below:

		As of March 31, 2020					
		Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly salary	Occupational hazard insurance	Total
Opening balance	¢	24,682	1,847	21,608	281	69	48,487
Expense for the year - investment		331	1,622	538	2,825	517	5,833
Expense for the year - operation		4,630	5,156	3,754	-	-	13,540
Used during the year		(6,773)	(90)	(20,759)	(1,871)	(558)	(30,051)
	¢	22,870	8,535	5,141	1,235	28	37,809

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

(*) Audited figures.

Regarding the *School Aid*, this is accrued during the year and is paid to employees in January of the following year.

(in millions of colones)

Nota 25. Memorandum accounts

Memorandum accounts are detailed below:

		As of March 31, 2020	As of December 31, 2019*
Guarantees received:			
Performance bonds (1)	¢	117,615	98,379
Collection agents (2)		10,909	11,324
Bid bonds (3)		20,095	18,991
Security deposits		567	561
Subtotal		149,186	129,255
Credit memoranda accounts - other - surety		1,692	1,692
Mobile terminals received from clients		356	1,514
Consigned assets – Computers for the “Hogares conectados” program		1,565	1,551
Contingent assets:			
Savings and loan funds		34,800	33,599
CNFL Employees Association (ASEFYL)		14,753	14,792
Performance bonds - procurement		896	961
Materials in transit		-	286
Bid bonds		863	863
Collection of electricity services		1,188	1,200
Materials loans		134	158
Employee guarantees		274	278
Rental of posts		236	319
Performance bonds - labor contracts		165	167
Security deposits (electricity consumption)		383	425
Valle Central Wind Power Plant		83	83
CNFL performance bonds		770	762
Guarantee and Savings Fund - RACSA		3,535	3,484
Subtotal contingent assets		58,080	57,377
Contingent liabilities:			
Payment arrangements - financing of appliances		60	63
	¢	210,939	191,452

(*) Audited figures.

(Continued)

A description of the nature of the memorandum accounts is included below.

(1) Compliance

These are guarantee bonds received by Grupo ICE to guarantee that the goods and services offered by a supplier will be delivered or rendered to Grupo ICE in accordance with the agreed terms and that, in the event of non-compliance by the supplier, the Grupo ICE will be indemnified by the execution of such bonds.

(2) Collection Agents

These are 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) Ownership

Bid bonds correspond to bonds that guarantee the 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.

Nota 26. Operating revenue

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

a) Revenue streams

Grupo ICE generates revenues from the sale of electric power as well as from the sale of telecommunications services.

(in millions of colones)

The following table breaks down the revenue streams from contracts with customers:

		For the period ended March 31, 2020	2019
Electricity services	¢	213,628	204,481
Telecom services		150,005	153,130
	¢	363,633	357,611

b) *Disaggregation of ordinary revenue from energy sales*

In the following table, ordinary revenue from contracts with customers is disaggregated into geographic markets.

		For the period ended March 31, 2020	2019
Local	¢	209,517	203,601
Foreing		4,111	880
	¢	213,628	204,481

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

		For the period ended on March 31, 2020	2019
Local electric energy	¢	183,788	178,072
Transmission tolls		16,718	18,082
Public lighting		5,283	5,521
Foreign electric energy		4,110	879
Management services		3,729	1,926
	¢	213,628	204,481

(Continued)

(in millions of colones)

Sales distributed by major components are detailed below:

		For the period ended on March 31,	
		2020	2019
Energy	¢	139,447	125,796
Demand		44,718	48,364
Variable Fuel Cost		17,324	18,749
Public lighting		5,284	5,521
Transmission tolls		3,734	2,630
Management		3,121	3,421
	¢	213,628	204,481

Revenue recognition opportunity

Ordinary revenue from energy sales is recognized at that certain time when Grupo ICE satisfies the contractual obligation by transferring control.

c) *Contract balances*

The following table presents information about accounts receivable associated to contractors with customers:

		March 31, 2020	December 31, 2019 *
Trade receivables - Electricity Segment (note 16)	¢	90,636	68,702
Contract liabilities (note 23)		31,797	30,988
	¢	122,433	99,690

(*) Audited figures.

d) *Performance obligations and revenue recognition policies*

Revenue from the electric sector is measured on the basis of the compensation specified in a contract with the customer. Grupo ICE recognizes revenue when it transfers control over a good or service to a customer.

The following table presents information on the nature and opportunity of meeting performance obligations on customer contracts, including significant payment terms and the corresponding revenue recognition policies.

Type of service	Nature and opportunity of meeting performance obligations, including significant payment terms	Recognition of revenue under IFRS 15 (applicable as of January 1, 2018)	Recognition of revenues under IAS 18 (applicable before January 1, 2018)
Sale of electricity services	Ordinary revenue has to be recognized when the significant risks and benefits derived from the ownership of goods have been transferred to the buyer; the recoverability of the consideration is likely; the associated costs and the possible return of the goods can be estimated reliably; the entity does not retain for itself any implication in the current management of the goods sold; and the ordinary revenue amount can be measured reliably.	The opportunity for risk and benefit transfers varies depending on the individual terms of the sales agreement. In the case of the sale of electricity this transfer usually occurs when it is consumed by the customer.	Revenue was recognized when the customer accepted the goods and the associated risks and benefits related to the transfer of ownership. Revenue was recognized at that time as long as revenue and costs could be measured reliably, collection of the consideration was likely, and no continuous involvement, in relation to the goods, existed.

(in millions of colones)

Nota 27. Operating Costs and Expenses

Operating costs and expenses are detailed below:

		Costs of operation		Operating expenses	
		For the period ended March 31,			
		2020	2019	2020	2019
Depreciation	¢	66,699	65,494	1,459	1,749
Private Generation (b)		61,327	63,211	-	-
Salaries and provisions		46,551	48,022	40,660	40,659
Agreements (a)		11,111	19,522	-	-
Amortizable intangible ítems		3,076	2,078	3,420	982
Fuel thermal generation		1,052	8,007	-	-
Import of energy		130	6,439	-	-
Others		42,603	43,589	55,967	70,916
Total	¢	232,548	256,361	101,506	114,306

a) <u>The following refers to the telecom, transmission, and power plant equipment lease agreements, which are registered and classified as operating leases:</u>

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	609	134	-	13	¢ 7,429	3,775
No order number	Cariblanco Securitization Trust (1)	16-ago-00	01-oct-07	31-dic-19		147	2	¢ 8	Monthly	Lease of Cariblanco Hydroelectric Power Plant	304	304	-	-	-	-	9,578
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	-	-	2,273	2,957
No order number	Toro III Power Plant Trust (1) and (4)	26-ene-12	01-jun-22	31-ago-28		142	1	-	Monthly	Lease of Toro III Power Plant	131	66	65	-	2	1,409	1,502
351643	Junta Administrativa Servicios Eléctricos de Cartago (JASEC) (a) (3)	14-abr-10	04-dic-12	03-jun-22		20	Between US$1,637 and US$854 (in thousands)	¢ 2,494	Half-yearly	Infrastructure for Tejar Step-Down Substation / Easements and expansion tower sites for Río Macho Transmission Line	25	25	-	10	2	-	310
											US$ 1,443	1,146	297	10	18	11,111	18,122
350702	Cooperativa de Electrificación Rural Guanacaste (b)	16-feb-10	06-mar-10	05-sep-21	¢	138	Variable between ¢617 and ¢473	¢ 3,541	Monthly	Infrastructure for Liberia, Papagayo - Nuevo Colón Transmission Line	¢ 87,848	87,848	-	13,487	-	-	1,440
											¢ 87,848	87,848	-		-	-	1,440
																¢ 11,111	19,522

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

The following is a description of the nature of the main deferred income recorded by Grupo ICE.

(1) *Securitization Trusts*

Grupo ICE entered into securitization trust agreements alongside *Banco Nacional de Costa Rica* and *Banco de Costa Rica*, under which the ICE acts as Trustor and Beneficiary, and the respective Banks as Trustees. These trusts were established with the objective that they independently generate and manage the financial resources required for the construction of the hydroelectric power plants known as Cariblanco and Toro III, as well as the Garabito thermal power plant. These power plants are part of the equity of these trusts (trust equity). Once their construction has been completed, they will be leased to ICE for periods that range from 11 to 15 years. At the end of the lease terms, ICE may exercise the purchase option established in each lease agreement.

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

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

The main clauses established in the trust agreements are summarized below:

- The purpose of the agreements is to establish trusts to generate and manage the resources necessary for the development of the projects, that 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 issuance and placement of debt securities.
  b) The trustor's movable property and tangible and intangibles assets (deemed essential to the agreement's purposes) transferred into the trust; civil works; equipment; facilities; repair shops; vehicles; equipment and materials; office and computer equipment (including software, documents, and licenses) and other assets acquired with funds from the trust to develop the projects and to operate and provide maintenance to the plants; rights to use the land owned by the trustor as required to develop the projects; and all written information and studies conducted for and during the development of works managed by the trusts.
  c) The agreed-upon revenue from the lease of power plants.
  d) Any other income obtained by the trusts in the normal course of business.

- Trust assets may only be used by the trustee as expressly stipulated in the trust agreements and according to the instructions of the trustor. The trustee's right of disposal of the trust assets and the trustor's right to issue instructions concerning such assets are limited to actions that are strictly necessary to comply with the purpose of the trust agreement.

- The trust's financial policy will be to allocate the resources obtained from the securitization process and from temporary investments to the construction of the projects, debt servicing, and covering the trust's operating costs. Upon compliance with such obligations, all of the trust assets will become the property of the trustor by operation of law.

- The trustor must appoint the Manager of the Execution Unit, satisfactory to the trustee, and who shall act as its superior, with the inherent rights and duties.The trustor and the trustee agree that Grupo ICE will be hired by the Trust to assume the responsibility of the construction of the projects, through an engineering and construction agreement.

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

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

- The lease agreements seek to regulate the relationship of the lease on the Cariblanco and Toro III Hydroelectric Power Plants, and the Garabito Thermal Power Plant.

- For purposes of these lease agreements, the corresponding securitization trusts are the lessors and ICE is the lessee. In the specific case of the Securitization Trust of the Toro III Hydroelectric Power Plant, the lessees are ICE and *Junta Administrativa del Servicio Eléctrico Municipal de Cartago* [JASEC], in accordance to the partnership established between ICE and that institution (see item No. 4 under "Toro III Hydroelectric Power Plant").

- The monthly lease amount is determined by applying a formula that considers, among other variables, the capitalized cost of the asset (i.e. the cost of the power plant). The lease amount is determined in US dollars.

- The lessee may unilaterally request early termination of the lease agreement. The lessee shall communicate this in writing three months in advance. In the event of early termination of the lease agreement, the lessee 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 operating the plant. Accordingly, ICE assumes responsibility for any damages to the plant's facilities resulting from its operation and maintenance.

- At the end of the lease term, the lessee may exercise the purchase option on the leased asset. The value of the purchase option is determined using a formula that considers, among other variables, the capitalized cost of the asset (i.e. the cost of the plant.).

(Continued)

- The Cariblanco Hydroelectric Power Plant completed its lease in December 2019, when the last payment of the lease fee was made. There was no need to execute the purchase option, and no payments are pending. The capitalization will take place in 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, shall be responsible for the technical and commercial operation of the infrastructure for a 12-year term, at the end of which, ICE may exercise a purchase option for the plant.

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

- The lease will be for a term of 12 years with a purchase option on the Las Pailas Geothermal Power Plant, starting the date Grupo ICE satisfactorily receives the power plant.

- The total amount of the lease is US$240 million, including lease installments and maintenance fees.

- At the end of the lease term, the value of the purchase option shall be equivalent to 15% of the total cumulative investment made at the end of the construction phase.
- The CABEI will make an investment of US$130 million for the construction of the plant.

- The CABEI agrees that Grupo ICE shall carry out the construction of the entire plant and its interconnection to the National Interconnected System. The total cumulative investment at the end of the construction phase will have been made in US dollars and shall only consist of the following lines:

    a) Actual cumulative amount of direct investments made by the CABEI for construction of the plant.
    b) 0.75%of the CABEI's direct investment at the time the CABEI makes the first disbursement of the direct investment (this is a one-time only payment);
    c) 0.75% of the estimated direct investment that has not yet been used for construction of the plant;
    d) Return calculated using the 6-month LIBOR rate plus 2.25% on the partial cumulative investment made during the construction stage of the plant;
    e) Administrative expenses derived from creation and operation of the Project Management Unit to be set up by the CABEI in accordance with the agreement.

- Grupo ICE agrees to lease the plant and act as the lessee. The CABEI shall be the lessor.

(Continued)

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

- Should Grupo ICE decide not to exercise the purchase option, the parties may agree to extend the lease agreement for up to six years, which shall require an extension to the agreement. Grupo ICE may exercise the purchase option prior to expiration of the agreement for an amount equivalent to the investment amount that the CABEI has yet to recover.

(3) *Tejar Step-down Substation- JASEC*

On April 2010, the ICE and the *Junta Administrativa del Servicio Eléctrico de Cartago* [JASEC, its Spanish acronym] made and entered into a lease agreement with a purchase option for the Tejar Step-down Substation and the easements and sites for towers for the expansion of the 230 KV Rio Macho del Este Transmission Line. Under such lease agreement, ICE acts as the lessee and JASEC as the lessor. The works are located in the San Isidro district, El Guarco canton, in the province of 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. This took place on June 4, 2012.

In November 2019, the purchase option of US$2,983, equivalent to ¢2,494, was executed and the agreement was settled.

(4) *Toro III Hydroelectric Power Plant:*

ICE and JASEC entered into a partnership agreement for the joint development of the Toro III Hydroelectric Power Project, whereby BCR acts as the trustee and ICE and JASEC as trustors. ICE and JASEC are listed as trustees.

The partnership agreement involved the execution of a 137-month (11 years and 5 months) lease agreement with a purchase option of the Toro III Hydroelectric Power Plant, under which ICE and the JASEC act as lessees and the Toro III Hydroelectric Power Project Securitization Trust as the lessor (see note 10).

The business partnership between the ICE and the JASEC involves equal participation in respect of rights and obligations and benefits derived from the construction and commercial exploitation of the Toro 3 Hydroelectric Power Project over its useful life. Both entities shall participate in the development of the Project, with an ownership interest of fifty percent (50%) (see note 10).

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

On February 16, 2010, the ICE, and the *Cooperativa de Electrificación Rural de Guanacaste, R.L. [also known as "Coopeguanacaste"]* entered into a lease agreement with an option to purchase the infrastructure of the Liberia-Papagayo-Nuevo Colón power transmission. Under such agreement, the ICE acts as lessee and Coopeguanacaste as lessor. The term of the agreement is of 137 months (it ends after 11 years and 5 months).

On September 30, 2019, the settlement of the Coopeguanacaste contract states that ICE paid its installments under the contract and complied with the payment to execute the purchase of goods, lands, and easements.

In December 2019, the Group capitalized the respective assets, which amounted to ¢27,637.

b) <u>Energy purchased from private generators:</u>

Under the terms of the “Act that Authorizes Autonomous or Parallel Energy Generation", No. 7200, which declares, as a matter of public interest, the purchase of electricity by ICE from those private companies that comply with the conditions established in such Act, Grupo ICE has entered into power purchase agreements with several private electricity generators. This Law provides two systems or chapters: Chapter I, “Autonomous or Parallel Generation,” which result in the so called BOO (Build, Own, and Operate) agreements, and Chapter II, “Purchase of Power under the Competition System”, which result in the so called BOT (Build, Operate, and Transfer) agreements.

As of December 31, 2019, Grupo ICE has entered into seven power purchase agreements under Chapter II, that is to say, BOT agreements (Build, Operate, and Transfer), with the following private generators: 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 Orosi Dos, S.A., and PH Chucás, S.A. During the life of the agreements, those independent power producers must build, operate, and provide maintenance to the corresponding plants. The power generated by such plants shall be sold exclusively to ICE. At the end of the term of those agreements, the ownership, management, and operation of the plants shall be automatically transferred to Grupo ICE, free of any liens and encumbrances. The corresponding private generators or Grupo ICE may request the early transfer of the power plants.

Some of the most relevant terms and conditions contained in the aforementioned agreements are the following:

- The private generators shall be responsible for the financing, design, procurement of supplies, construction, testing, commissioning, and maintenance of the plants. The private generators also agree to deliver all the energy produced to Grupo ICE during the term of the contract.

- The private generators shall produce energy with the quality and standards of operation set forth in each contract and will fully deliver it to ICE, with the exception of that required to feed the auxiliary equipment and for servicing of the plants, pursuant to the agreements.

- The private generators take the risk for damage, loss or destruction of the equipment and facilities, during the term of the agreements, due to any reason or cause whatsoever that is directly attributable to the private generators, 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 price adjustment formulas that contemplate inflation, and which apply on the operating and maintenance cost component.

As of the start of the plant's commercial operation, the private generators must, at their own expense, obtain and maintain, at least, the following insurance policies, according to their availability in the market: worker's compensation and all risk physical damage.

Grupo ICE may suspend the receipt of energy generated by the private generators and shall be exempt from paying for said energy during such period of suspension for the following reasons:

- Tampering of meters
- Non-compliance in relation to the condition in the agreed place of delivery, under the responsibility of the private generator
- Inability of the private generator to supply the energy in accordance with the required operation parameters.
- Failure to renew the performance bond.
- Failure to renew the 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 private generators who have entered into agreements under Chapter I of Act No. 7200 (B.O.O type agreements), the following four types of agreements are in effect:

- Type A: applicable to hydroelectric power plants with a power output of less than 5 MW
- Type B: applicable to hydroelectric power plants with a power output greater than 5 MW.
- Type C: applicable to wind farms.
- Type D: applicable to biomass power plants (mills, sugar cane husk).

The general terms of these agreements establish that, during the life of the agreement, ICE will purchase any surplus electric power that the private generator may supply once its own energy needs are met, up to the maximum power output agreed. The private generator 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 private generator with a power output that exceeds the agreed maximum. Electricity received under these agreements is paid at the rates in effect set by ARESEP upon its delivery.

ICE entered into agreements under Chapter I of Act N° 7200 ever since the law was enacted in 1990. As of 2009, once the agreements executed in the nineties started to expire (which maximum term was 15 years), Grupo ICE proceeded to renew them, for the remaining term of the concessions (which were granted for 20 years.) Currently, agreements are being renewed once

(Continued)

the companies obtain new concessions, both for the use of hydraulic resources. in the cases of hydroelectric projects, and for generation as a public service, which is granted by ARESEP. Similarly, the contracts that are renewed are adapted to the new supply and demand conditions prevailing in the National Electrical System, different from those that existed at the beginning of these contracts. Moreover, three new power plants, the agreements of which were executed as a result of the tender processes executed in 2014 and 2015, still need to be incorporated. Currently, agreements have been entered into with 30 companies: 10 wind farms, 2 sugar factories, and 18 hydroelectric plants.

In addition, as of 2012, once ARESEP published the rates for new power plants, and the new regulations for Chapter I of Act No. N° 7200 was published, ICE started the selection process of projects with which new agreements shall be entered. In June 2012 Bid No. 01-2014 was published, through which five wind energy and six hydroelectric projects were selected. This process resulted in the signing of agreements with the wind energy projects of Tilawind, Campos Azules and Altamira in Tilarán, and Vientos de la Perla and Vientos de Miramar in Liberia, which became operational between the first quarter of 2015 and the first quarter of 2017. In relation to the hydroelectric projects, only El Ángel (Ampliación) executed an agreement and is currently operational.

In February 2014, Bid No. 02-214 was published, 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 energy and four hydroelectric projects were selected, of which one waived his selection. In December 2015, the Vientos del Este Wind Farm began operating, and generates 9 MW. In July 2016, the Mogote Wind Farm began operating and generates 20 MW. The agreements for the three hydroelectric projects were made and entered during the second semester of 2017. However, in 2019, one of the contracts was terminated for non-compliance and the remaining two contracts are still at the beginning of the construction stage.

On September 24, 2015 tender no. 03-215 was published. This tender resulted in the awarding to the company Natural Partners S.A. of the development of the photovoltaic project known as P.S.F. Valle Escondido I, which is now at construction stage.

Rate adjustments for private power plants (BOO)

On November 30, 2011, through Resolution RJD-163-2011 of the ARESEP, the "Model for the determination of reference tariffs for new private wind power plants" was approved and published in the Official Newspaper, "La Gaceta", No. 245, of December 21, 2011. On November 20, 2019, Resolution RE-0089-IE-2019 was published in the Official Newspaper, "La Gaceta", thereby authorizing the last tariff fixing for these types of plants.

On August 10, 2011, through resolution RJD-152-201 of the ARESEP, the "Methodology to calculate the reference tariffs for new private hydroelectric power Plants" was approved, which was published in the Official Newspaper, "La Gaceta", No. 168 of September 01, 2011. On July 22, 2019, Resolution RE-0049-IE-2019 was published in the Official Newspaper, "La Gaceta", thereby authorizing the last tariff fixing for these types of plants.

On May 7, 2010, through resolution RJD-009-2010 of the ARESEP, the "Methodology to set the tariffs for private generators (Act 7200) that enter into a new agreement for the purchase and sale of electricity with ICE", published in the official newspaper, "La Gaceta", No. 109 of June 7,

2010. On January 30, 2019, Resolution RE-0008-IE-2019 was published in the Official Newspaper, "La Gaceta", thereby authorizing the last setting of tariffs for these types of plants, which include private hydroelectric and wind generators.

On April 26, 2010, by means of resolution RJD-004-2010 of the ARESEP, the "Methodology to set tariffs according to the typical cost structure of a model sugar cane husk biomass power plant that sells energy to the *Instituto Costarricense de Electricidad* and its price indexing formula", published in the Official Newspaper, "La Gaceta", No. 98, on May 21, 2010. On September 23, 2019, resolution RE-0063-IE-2019 was published in the Official Newspaper, "La Gaceta", thereby authorizing the last setting of tariffs for these types of plants.

To date, ARESEP makes the periodic legal adjustments of the rates pertaining to each type of procurement agreement, as per the conditions established in the four methodologies.

(in millions of colones)

Nota 28. Other revenue

		For the period ended March 31,	
		2020	2019
Constructions services (1)	¢	1,104	548
Others (2)		7,979	4,371
Total	¢	9,083	4,919

(1) Construction services include invoices for advances or completion of works under contract for engineering, design, construction, or other specialized services provided by Grupo ICE to third parties; and related to projects under construction. The line "Electromechanical and civil works agreements" includes costs associated to these construction agreements.

(2) Includes revenue from administrative sanctions and engineering services, mainly.

Nota 29. Financial revenue and costs

		For the period ended March 31,	
		2020	2019
Income from investments (1)	¢	5,730	5,165
Finance costs (3)		(50,138)	(44,203)
Foreing exchange differences, net (2)		(24,798)	35,484
Investments in others companies		(13)	14
	¢	(69,219)	(3,540)

A description of the main transactions performed are included below:

(1) Interest includes revenue on securities of the external sector.

(2) As a result of the transactions in foreign currency, the valuation of monetary assets and liabilities in foreign currency during the period ended on March 31, 2020, the Group recognized revenue in the amount of ¢67,213 and expenses in the amount of ¢92,027. This resulted in a net effect of (¢24,798) arising out of exchange differences (during 2019 the net effect amounted to ¢35,484 due to the revenue and expenses that were recognized). To appraise such monetary assets and liabilities at the end of the period, an exchange rate of ¢579.32 (¢599.53 in 2019) was used.

(3) It includes interest and commission expenses, generated mainly by domestic and international debt securities and financial leases.

Nota 30. Tax regulations

Grupo ICE has tax obligations that are governed by the following laws: The Income Tax Act (No. 7092) as amended, the Regulations to the Income Tax Act, as amended, the General Sales Tax Act (No. 6826), as amended, the Regulations to the General Sales Tax Act, as amended, the General Customs Act, as amended, the Strengthening and Modernization of Public Telecommunication Companies Act (No. 8660), the General Telecommunications Act (No. 8642), and the Strengthening of Public Finances Act, (No. 9635)

(a) Strengthening of Public Finances

On December 4, 2018, in Scope No. 202 of the Official Newspaper, "La Gaceta", Act No. 9635 "Strengthening of Public Finances", was published. This Act introduces significant changes to the treatment that is given to taxes defined in the Income Tax Act and the General Sales Tax Act, both valid as of that date; and replaces the General Sales Tax with the Value Added Tax. Most of the proposed amendments will come into force 6 months after they are published; hence, it will not be until then that the main impacts of the Value Added Tax shall be seen. Among the main aspects to consider under this new law, are the following:

- In the case of the Value Added Tax, this new Act will levy a tax upon the sale and import of tangible and intangible goods and the rendering of services throughout the country, notwithstanding their origin and means. It includes certain exceptions and reduced rates for specific circumstances. The general rate is of 13%, although certain goods and services shall be taxed with a special rate that ranges from 1% to 4%, at the beginning, and after a set term, some of these rates will increase. In the case of electrical energy use, if a client exceeds 280 KW per month, his energy use shall be taxed with a 13%, otherwise, it will be exempted. Regarding the fiscal credit, the computation and use of a proportional credit is established.

- Act 9635 establishes a Capital Gains Tax, which taxable event is any income from a Costa Rican source that arises from capital and realized capital gains/losses, provided that they come from goods or rights that belong to the taxpayer, as well as exchange differences that come from assets or liabilities resulting from operations; provided that such taxable income is not subject to the income tax. This tax has a general rate of 15%.

- Regarding the Salary Tax, Act 9635 establishes new intervals and rates, and now salaries paid to employees are subject to new rates that range from 0% to 25%. The two new intervals that were created have 20% and 25% tax rates.

- In the case of the Foreign Remittances Withholding Tax, Act 9635 increases the rate applicable to professional fees, commissions, attendance fees paid to board members, and other independent personal services, to 25%.

(b) Current income tax

(Continued)

Act No. 7722, known as the "Levying of Income Tax upon Government Institutions" establishes that: *"excess of revenue over expenses shall constitute taxable income and shall be calculated as gross revenue less costs, productive expenditures, and investment reserves or development funds that are necessary and relevant to produce such income."*

The *Instituto Costarricense de Electricidad* is a taxpayer subject to the income tax, as it renders for profit services that generate income for it. On the other hand, Legal Order Number 449, related to the creation of the *Instituto Costarricense de Electricidad*, establishes the following in its article 17: "the financial policy of ICE shall be to capitalize the net earnings it obtains from the sale of electric energy." Similarly, article No. 13 of Act No. 8660 states that "in the event of distribution of surpluses in favor of ICE or its companies, driven by the rendering or sale of electricity, telecommunications, information communications and information services, as well as by the sale of other products or services developed or marketed by ICE or its companies or through partnerships with third parties; such surpluses shall be capitalized as development reserves to fulfill its purposes."

According to the Strengthening and Modernization of Public Telecommunication Companies Act, (No. 8660), ICE and its subsidiaries shall be subject to the payment of income and sales tax, excluding income tax on the delivery of traditional basic telephone services, when they act as operators or providers of telecom and electricity services and products in competitive local markets. In any other cases, the exemptions granted through Executive Order No. 449 of April 8, 1949 and any other exemptions granted by the legal system will continue in effect.

Given that Grupo ICE must reinvest the total net profit it obtains, no surplus is produced, which means that it does not have any taxable income, and, therefore, has no income tax liability. However, the Costa Rican Tax Authorities normally imposes income tax withholdings that are subsequently applied as a credit to the value added tax liability.

Temporary Section I of the Regulations to such Act state that those taxpayers liable for income tax whose fiscal year is already ongoing when the Income Tax Act, as amended by Act No. 9635, comes into effect, will finish their fiscal years with the laws that were valid when their fiscal year started, i.e. the income tax pertaining to December 31, 2019 shall be computed using the provisions of the Income Tax Act, No. 7092.

(in millions of colones)

The income tax expense (revenue) is detailed below:

		For the period ended	
		2020	2019
Current	¢	(247)	(264)
	¢	(247)	(264)

According to the Income Tax Act, subsidiaries must file annual income tax returns for the 12-month period ending each year on December 31.

The subsidiaries are subject to the payment of income tax for the taxable income they produce as a result of their for-profit activities, at a rate of 30% per annum. The current income tax expense is determined in accordance with valid fiscal laws in Costa Rica.

The Tax Authorities can review the income tax returns presented by the subsidiaries for the years ended on December 31, 2019, 2018, 2017 and 2016. The subsidiaries presented a sworn income tax return for the period ended on December 31, 2018.

Deferred income tax

In December 2018, Act No. 9635 "Strengthening of Public Finances", was approved. This Act establishes, among others, changes to the General Sales Tax Act, by transforming it into Value Added Tax; as well as to the Income Tax Act, including the chapter that levies a tax upon capital gains and losses. As a result of the approval of this new law, CNFL recognized a deferred income tax liability for the revaluation of the lands, amounting to ¢488 ($395 in 2019), which is included in the amounts indicated above.

(in millions of colones)

For the 3-month periods ended on March 31, 2020 and December 31, 2019, the deferred income tax asset originates from the following temporary differences:

		March 31, 2020	Recognized in the results of the year	December 31, 2019
Deferred income tax asset:				
Provision for Christmas bonus and vacations	¢	160	26	134
Provision for legal benefits - unemployment aid		157	54	103
Estimate for obsolete inventory		100	-	100
Inventories		27	27	-
Estimate for doubtful debts		32	(13)	45
Litigations provision		4	(10)	13
Leases		9	9	-
	¢	488	93	395

		December 31, 2019	Recognized in the results of the year	December 31, 2018
Deferred income tax asset:				
Provision for Christmas bonus and vacations	¢	134	19	116
Provision for legal benefits - unemployment aid		103	(20)	123
Estimate for obsolete inventory		100	(51)	151
Estimate for doubtful debts		45	45	-
Litigations provision		13	13	-
	¢	395	6	390

(Continued)

(in millions of colones)

For the year ended March 31, 2020 and December 31, 2019, the deferred income tax liability originates from the following temporary differences:

		March 31, 2020	Recognized in the results of the year	Effect of deferred income tax	Effect of deferred for tax	December 31, 2019
Deferred income tax liability:						
Revaluation of productive assets	¢	100,810	(6,443)	965	-	106,289

		December 31, 2019	Recognized in the results of the year	Effect of deferred income tax	Effect of deferred for tax	December 31, 2018
Deferred income tax liability:						
Revaluation of productive assets	¢	106,289	(6,198)	112,487	(1,528)	1,528

(Continued)

(in millions of colones)

Unrecognized deferred tax assets

As of March 31, 2020 and December 2019, the subsidiary, CNFL, did not recognize in its statement of financial position, a deferred income tax asset, as -considering the financial results for the period and the forecasts for the upcoming year- CNFL does not believe that it will generate enough taxable income so as to recognize it as of such date. This amount is linked to other items:

		March 31, 2020			December 31, 2019	
		Amount		Tax effect	Amount	Tax effect
Estimate for doubtful debts	¢	1,686	-	506	1,771	531
Estimate for obsolete inventory		951	-	285	947	284
Provision for Christmas bonus		327	-	98	346	104
Provision for legal benefits		4,194	-	1,218	5,258	1,577
	¢	7,158		2,147	8,321	2,496

(c) Value Added Tax

Grupo ICE is a contributor to the value added tax, as amended by Act No. 6826 derived from Act No. 9635. This is a value added tax on the sale of goods and rendering of certain services. The fees applied are the following: for the sale of energy for residential consumption, 5% over the excess of 280 kw of monthly consumption; 13% for commercial consumption and rendering of telecommunications services.

Because it is a value-added tax, Grupo ICE pays this tax on the goods and services it requires to execute its economic activity. Pursuant to article 14 of the aforementioned Act, VAT tax paid for the purchase of goods and supplies used to produce energy and telecom services can be applied as a credit to the value added tax liability for the period.

(d) Special parafiscal contribution for telecommunications carriers and suppliers to the National Telecommunications Fund [FONATEL, its Spanish acronym] (General Telecommunications Act, No. 8642)

Article 39 of the General Telecommunications Act, Nº 8642, sets forth a parafiscal tax to finance the National Telecommunications Fund [FONATEL] to ensure compliance with the principles of universal access, universal service, and cooperation. The parafiscal tax will be levied upon the gross income directly earned by the operators of public telecommunications networks and telecommunications service providers available to the public who generated the taxable event by performing the aforementioned activities and receiving the specific benefit from State activities.

This tax is determined in a sworn tax return that cover one fiscal period. The affidavit must be filed by March 15 of each year and the tax is paid in four equal installments on the

15th day of March, June, September, and December of each year following the corresponding tax year-end. The payment of this tax shall be distributed in four equal installments, payable on the 15th day of March, June, September, and December of each year following the corresponding tax year-end.

The tax rate is set annually by SUTEL no later than November 30 of the corresponding tax year. The percentages established for this tax range between 1.5% and 3%, and the definition of the final rate shall be based on SUTEL's estimates of the income and costs of the projects to be executed in the following budget year. 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 shall be used.

(e) Parafiscal Contribution to Telephony Services

Act N° 9355 published on May 27, 2016 "Amendments to Several Acts to Finance the Costa Rican Red Cross" created a parafiscal contribution in favor of the Costa Rican Red Cross.

This contribution consists of a 1% rate of the amounts paid by the end user of a conventional, mobile, prepaid, or postpaid telephone line or any other type of telephony service. The amounts collected must be paid no later than the fifteenth calendar day of each month. Such Act repeals Act 8690, which defines the Red Tax allocated to the financing of the Costa Rican Red Cross, which was paid before.

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

Act No. 8228, "Meritorious Firefighter Department of Costa Rica Act", dated March 19, 2002, was amended through Act No. 8992, "e Financial Strengthening of the Meritorious Firefighter Department of Costa Rica Act", published in the Official Newspaper, "La Gaceta", on September 22, 2011. This Act amends articles 28 and 33 of Act No. 8228, "Meritorious Firefighter Department of Costa Rica", of March 19, 2002, and its amendments. In addition, it amends article 40 of Act No. 8228, "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% (one point seventy-five per cent) of the monthly electric energy bill paid by each client.

(g) Customs Duties

As set forth in the customs legislation, custom duties are comprised of custom duties and internal taxes, and they must be paid in full to legally import goods. The customs tax referred to as DAI is the Import Tariff Fee, which is defined as follows: t is an ad valorem tax determined according to the classification within the established duty codes. The following are included among the internal taxes: Excise Tax (rate according to goods), Tax of Act No. 6946 (1%), Value Added Tax (13%), other specific taxes from the Institute of Agrarian Development [IDA, its Spanish acronym], Municipal Advisory and Promotion Institute [IFAM, its Spanish acronym], Golfito Duty Free Zone, among others. Thus, based on the type of merchandise or goods eligible for exemption, ICE has to pay the customs duties for goods imported before they can be cleared by customs.

(h) Other obligations

ICE is also an income tax withholding agent in accordance with the Income Tax Act. 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:

- salaries, labor payments, compensation for personal services and attendance fees paid to board members.
- Remittances or credits in favor of nonresidents for services such as transportation, communications, technical and financial advisory, personal services, and other services, according to type and rates defined in articles No. 55 and 59 of the Income Tax Act.

Nota 31. **Management of institutional financial risk**

a) Accounting classifications and fair value

The table below shows the book values and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. The table does not include information for financial assets and financial liabilities that are not measured at fair value if their book value is reasonable approximation of their fair value.

(in millions of colones)

			As of March 31, 2020								
			Carrying amount					Fair value			
	Note		Fair Value - hedging instruments	FVTOCI - equity instruments	Financial assets at amortized cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets											
Equity investments	10	¢	-	5,749	-	-	5,749	-	-	5,749	5,749
Notes and other accounts receivable, net	11		-	-	5,518	-	5,518	-	-	-	-
Investments in financial instruments	12		-	60,485	-	-	60,485	-	60,485	-	60,485
Temporary investments	15		-	-	141,756	-	141,756	-	-	-	-
Trade receivable, net	16		-	-	184,681	-	184,681	-	-	-	-
Cash and cash equivalents	18		-	-	267,977	-	267,977	-	-	-	-
		¢	-	66,234	599,932	-	666,166	-	60,485	5,749	66,234
Financial liabilities											
Financial debt	19(a) 19(b)	¢	-	-	-	2,161,039	2,161,039	-	2,046,051		2,046,051
Financial lease obligations	19(c)		-	-	-	513,236	513,236	-	511,654	-	511,654
Accounts payable	21		-	-	-	176,609	176,609	-	-	-	-
Derivative financial instruments			5,095	-	-	-	5,095	-	5,095	-	5,095
Total financial liabilities		¢	5,095	-	-	2,850,884	2,855,979	-	2,562,800	-	2,562,800

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

		As of December 31, 2019 *								
		Carrying amount					Fair value			
	Note	Fair Value Hedging Instruments	FVTOCI– 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 accounts receivable, 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 receivable, 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
Financial lease obligations	19(c)	-	-	-	477.255	477.255	-	498.280	-	498.280
Accounts payable	21	-	-	-	129.207	129.207	-	-	-	0
Derivative financial instruments		4.265	-	-	-	4.265	-	4.265	-	4265
Total financial liabilities		¢ 4.265	-	-	2.745.765	2.750.030	-	2.661.032	-	2.661.032

(*) Audited figures

(Continued)

<u>Fair value of financial instruments</u>

Several accounting policies and disclosures of the ICE require the determination of the fair value of the financial assets and liabilities. Fair values have been determined for measurement and disclosure purposes under the methods described below.

i. *<u>Notes and other accounts receivable, investments in financial instruments, temporary investments, trade receivables, net, and cash and cash equivalents</u>*

Given their short-term nature, the book value of accounts receivable and accounts payable is approximate to their fair value.

ii. *<u>Equity investments</u>*

Fair values are determined using generally accepted valuation models based on a discounted cash flow analysis, where the most significant indicators, such as the discount rate, indicate the credit risk of the counterparts.

iii. *<u>Derivative financial instruments</u>*

Cash flow hedges:

The fair value is computed as the present value of the future estimated net cash flows. Estimates of future floating rate cash flows are based on quoted swap prices, futures, or interbank debit rates. Cash flows are discounted using a yield curve created from similar sources and that reflects the corresponding reference interbanking rate used by market agents for this purpose when they set the prices for interest-rate swaps, as well as for collateral granted or received.

iv. *<u>Financial debt and financial lease obligations</u>*

The fair value that is determined for disclosure purposes is computed using the present value of the future cash flows, capital, and interest, discounted using a market interest rate as of the date of the balance sheet.

Fair value estimates are made as of the date of the separate financial statement, based on relevant market information and information related to financial instruments. These estimates do not reflect any premium or discount that could result from maintaining financial instruments available for sale. The nature of these estimates is subjective and involves uncertain aspects and the judgment of the Administration, so their amounts cannot be determined with absolute precision. Consequently, if there were changes in the assumptions on which the estimates were based, these could differ from the final results.

(Continued)

The assumptions used by the Administration to establish the fair value of financial instruments are detailed below:

a. The amounts of cash and cash equivalents, notes and accounts receivable, accounts payable and other accounts payable are approximate to their fair values, as they are short-term financial instruments.

b. A discount rate of 10.52% in colones and 5.27% to 7.04% in US dollars (10.11% in colones and between 8.63% and 9.34% in US dollars in 2018), the rates available to ICE, was used to determine the fair value of the long-term debt as of December 31, 2019.

c. The value of cash flow hedges is stated at their fair value.

d. Investments in equity instruments are not traded on an active market, and their fair value has not been reliably determined.

Fair values of financial assets and liabilities included in levels 1 and 2 above were determined using generally accepted valuation models based on a discounted cash flow analysis, where the most significant indicators, such as the discount rate, indicate the credit risk of the counterparts.

Financial risk management

The Grupo ICE is exposed to the following risks related to the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

i) Risk management framework

The Corporate Policy for Financial Risk and Financial Hedging Management has the following objective:

"To provide ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization included in the business strategy, through an effective management of financial risks using market opportunities, based on available financial instruments in accordance with the Risk Management and Financial Risk Hedging Strategy."

In January 2018, this corporate policy for financial risk and financial hedging management, which was in force since 2011, was updated.

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 Division through the Financial Risk Process.

The use of financial derivatives is governed by the Policy for Financial Risk and Financial Hedging Management and meets international accounting best 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 investments. This task is performed as part of the financial process for investments.

Each year, the Financial Division develops a financial risk map for Grupo ICE together with other Corporate Directorates and follows-up on action plans and control.

The three risks can impact the management of the Grupo ICE and, therefore, the company looks for ways to minimize them. Institutional Investments Committee follows-up on credit risk by analyzing the fundamental factors of the issuers and monitoring their camel ratings in order to understand the financial health of the counterparties with which the Group has financial investments. In relation to liquidity risk, the treasury department controls the cash flows of each sector by monitoring their incoming and outgoing cash flows. In relation to market risk, the Group is capable of engaging in financial hedging or of acquiring financial derivatives.

The Corporate Policy for Financial Risk and Financial Hedging Management, as well as the Manual of Policies and Procedures for Risk Management Risk Management Policies and Procedures Handbook, as well as the risk management systems, are part of the risk management framework to ensure effective financial risk management in Grupo ICE. In addition, through the analysis of environmental risks, changes in the market conditions and financial activities of Grupo ICE are controlled and followed-up. The Internal Audit unit of Grupo ICE supervises compliance with these policies and procedures to manage the risks of Grupo ICE, and reviews the appropriateness of the risk framework in relation to the risks that Grupo ICE faces. The Audit Committee even oversees risk management, according to its work plan.

The Institutional Investments Committee has the responsibility to control and follow up on the management of the temporary investments of Grupo ICE's electricity and telecoms businesses. This is the body to which the Financial Management delegates responsibility for

defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) in respect of investment decisions, which include limits by instrument, currency, and sector, as well as risk levels related to portfolio composition.

This Committee approves the document known as "Investment Strategy", which is reviewed annually, as well as the document known as the "Management Limit to Operate ICE's Investment Portfolios", which is reviewed using the criteria of such 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), duration, modified duration, and concentration indicators, as well as credit risk, liquidity, and other indicators. Stress testing and back testing are used to measure the effectiveness of the model used.

Risk management policies and support systems used are periodically reviewed to reflect changes in market conditions and the activities of Grupo ICE. The Audit Committee supervises how the management monitors compliance with these policies and procedures to manage the risks of Grupo ICE, and reviews the appropriateness of the risk framework in relation to the risks that Grupo ICE faces. The Audit Committee receives the assistance of the Internal Audit department.

ii) *Credit risk*

This is related to the potential losses due to noncompliance with the contractual terms of a client or counterpart in the operations performed by ICE, related mainly to cash, cash equivalents, accounts receivable, and investments.

As a way to mitigate this risk, the Group controls and follows-up on the risk ratings issued by risk rating agencies to the investments it holds. There are investment limits in the institutional portfolio by market (local and international), by sector (public, rest of the public sector, private sector), by instrument, by issuer, and by issue. For this risk, no collateral has been received as guarantee.

In the case of CNFL, credit risk is the risk of default on principal and/or interest payments as a result of internal and external factors that negatively affect the realization of cash flows, operating income (expenses), and surplus (deficit) outlooks. A shortage of liquidity is not expected to have a negative effect on CNFL's exposure to credit risk.

In the case of RACSA, credit risk is defined as 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 defaulting customers, developing customer profiles.

(in millions of colones)

The book values of financial assets represent the maximum credit exposure. Maximum risk exposure is the following:

Carrying amount of financial assests	Note		As of March 31, 2020	As of December 31, * 2019
Cash and cash equivalents	18	¢	267.977	203.412
Equity investments	10		36.496	36.517
Investments in financial instruments	12		60.485	73.869
Temprorary investments	15		141.756	120.316
Guarantee and saving funds	13		222.896	222.645
Notes and other accounts receivable	11		69.267	68.744
Trade receivable	16		184.681	148.433
		¢	983.558	873.936

(*) Audited figures.

(i) *Accounts receivable*

The Group recognizes the correction of value for losses related to trade receivables over the remainder of the life of contractual assets. Expected credit losses related to these financial assets are estimated using a supply matrix based on the Grupo ICE's historical experience of credit losses, adjusted for factors that are specific to debtors, the general economic conditions, and an assessment of both the current conditions and the forecast of the conditions on the reporting date, including the time value of money, when appropriate.

For all other financial instruments, the Group recognizes the credit loss expected during the remainder of their lives.

The correction of loss values over the remaining life of the instrument represents the expected credit losses resulting from all possible non-compliance events during the life of a financial instrument.

Because account receivables are classified as current assets (maturities under a year) and do not include a significant financing component, IFRS 9 allows the Group to define an impairment estimation model with a simplified expected loss approach.

Accounts receivable are controlled directly in the electricity and telecom segments. The procedure followed by each segment for recovering receivables is summarized below:

- Collection management throughout the different stages, using diverse methods: text messages, calls, emails.

- Small- and large-scale collections management centralized in the Directorate of Billing and Revenue Management using three approaches according to the stage of the collections procedure and using differentiated strategies in 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 ICE's cashier windows.
- In the event that the outstanding balance is not collected, an administrative collection process begins 35 days after the electric services have been suspended and 90 days after the telecommunication services have been suspended. Administrative collection involves locating the customer and informing him/her about the delinquency, as well as notifying the credit protector thereof, so that the situation is included in the customer's credit history. For such purposes, ICE has companies dedicated to collections or coordinating payment arrangements with customers to mitigate defaults.
- Residual defaults (less than 1%) are studied to determine if they must be added to the judicial collections portfolio, which is executed by subsidiary Gestión de Cobro, S.A.

The accounting policies to record the allowance and the expected credit losses are explained below and in note 7 “Significant accounting policies”.

Trade receivables

Grupo ICE uses a collective impairment model for trade receivables segmented by type of service: electricity and telecommunications; and, in turn, these are segmented by type of client: general, government, subsidiaries, private bank, foreign and judicial or administrative collection. All transactions classified under a segment have similar risk characteristics such as commercial conditions, timeframes, and business types.

For the collective impairment estimate, the Group uses an accounts receivable matrix consisting of expected loss rates by a day of delinquency interval for each segment. Grupo ICE uses historical trends of delinquency and default of the portfolio to determine these loss rates.

Loss rates (TP) are obtained for each segment and in turn for each days of delinquency interval, so each transaction is assigned a loss rate depending on the days of delinquency it has at the time the impairment is estimated. Grupo ICE defines loss rates by calculating the percentage of the portfolio that will become impaired in one year, according to the days of delinquency at the time. In the case of accounts in judicial or administrative collection, a single loss rate, applicable to all transactions, is defined, such as the percentage of outstanding balances that was not recovered in one year.

For the government accounts of the Electricity Business, a loss rate of 0 was determined, based on the nature of these accounts, since the expectation to collect these, as they are government accounts, is high. In addition, it was identified that the delinquency at the end of 2019 is due to operational matters. Accounts with a delinquency that exceeds 360 days were also identified, however, since these are from government entities, it was determined that all of these accounts would be collected.

(in millions of colones)

Regarding accounts receivable with subsidiaries of the electricity business of Grupo ICE, it was determined that a loss rate of 0 was applicable, given the nature of these accounts and that these are balances that need to be collected from a single institution (Compañía Nacional de Fuerza y Luz, S.A.), which has a strong payment capacity.

Accounts receivable from private banks and relating to the Electricity sector were also determined to have a loss rate of 0, given the nature of these accounts and the strong payment capacity and history of such institutions, the delinquency of which has not been linked to their payment capacity.

Since the portfolio consists of products with maturities under 12 months, the 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 identify, in future valuations, the existence of a new factor that could affect the level of risk, and incorporate it into the calculation of the TP.

As of March 31, 2020, the maximum exposure to credit risk for trade receivables (see note 16), by geographic region, is described below:

Geographic region		As of March 31, 2020	As of Decembrer 31, 2019 *
Local	¢	218.667	182.244
Foreign		2.129	554
		220.796	182.798
Allowance for impairment of trade accounts		(36.115)	(34.365)
	¢	184.681	148.433

(*) Audited figures.

(in millions of colones)

As of March 31, 2020, the maximum exposure to credit risk, for notes receivable, by type of counterpart, is described below:

Counterparty		As of March 31, 2020	As of December 31, 2019 *
General borrowers	¢	171.738	150.387
Government		46.929	31.857
Private banks		192	196
Other		1.937	358
		220.796	182.798
Allowance for impairment of trade accounts		(36.115)	(34.365)
	¢	184.681	148.433

(*) Audited figures.

The delinquency of the balance of trade receivables (see note 16), as well as its expected loss allowance, is detailed below:

As of March 31, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (undue)	1,48%	¢	76.927	1.137	No
1 to 30 days	2,87%		31.886	916	No
31 to 60 days	7,78%		37.226	2.898	Yes
61 to 90 diays	5,74%		9.340	536	Yes
More than 90 days	46,82%		65.417	30.628	Yes
		¢	220.796	36.115	

As of Decembre 31, 2019 *	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	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 diays	6,53%		7.881	515	Yes
More than 90 days	52,09%		55.975	29.155	Yes
		¢	182.797	34.365	

(*) Audited figures.

(Continued)

(in millions of colones)

The following is an analysis of the credit quality of trade receivables (see note 16):

		As of March 31, 2020	As of December 31, 2019 *
Current	¢	184.681	148.433
In legal and administrative collection		36.115	34.365
		220.796	182.798
Allowance for impairment of trade accounts		(36.115)	(34.365)
	¢	184.681	148.433

(*) Audited figures.

The expected loss - trade receivables transactions is described below:

		As of March 31, 2020	As of December 31, 2019 *
Opening balance	¢	34.365	42.152
Used		771	(28.345)
Lost for impairment recognized during the year		979	20.558
Closing balance	¢	36.115	34.365

(*) Audited figures.

Non-trade receivables

The Company uses a collective impairment model for the other account receivables that are classified as "unidentified" and an individual model for the accounts receivable of customers with whom payment expectations are known.

For unidentified non-trade receivable, a loss rate is determined for accounts that are two or less years old, which is obtained as the ratio of the balance after two years over the total balance. For accounts that have a delinquency that exceeds 2 years, the loss rate used is of 100%.

The delinquency of the balance of trade receivables (see note 11), as well as its expected loss allowance, is detailed below:

(in millions of colones)

As of March 31, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	12,34%	¢	2.066	255	No
1 to 30 days	8,94%		1.130	101	No
31 to 60 days	13,59%		287	39	No
61 to 90 diays	6,10%		623	38	Yes
More than 90 days	11,35%		14.172	1.609	Yes
		¢	18.278	2.042	

As of Decembre 31, 2019 *	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	10,59%	¢	2.408	255	No
1 to 30 days	4,12%		2.451	101	No
31 to 60 days	10,66%		366	39	No
61 to 90 diays	4,79%		793	38	Yes
More than 90 days	10,04%		15.909	1.597	Yes
		¢	21.927	2.030	

(*) Audited figures.

Notes receivable

The Group uses a collective impairment model for trade receivables arising out of payment arrangements for each type of service (electricity and telecommunications). All transactions classified under a segment have similar risk characteristics such as commercial conditions, timeframes, and business types.

For the collective impairment estimate, the Group uses a matrix consisting of expected loss rates by a day of delinquency interval for each segment. The Group uses historical trends of delinquency and default of the portfolio to determine these loss rates.

Loss rates (TP) are obtained for each segment and, in turn, for each days of delinquency interval (in the case of electricity). This results in each transaction being assigned a loss rate depending on the days of delinquency it has at the time the impairment is estimated. The Group defines loss rates by calculating the percentage of the portfolio that will become impaired in one year, according to the days of delinquency at the time.

Since the portfolio consists of products with maturities under 12 months, the 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 identify, in future valuations, the existence of a new factor that could affect the level of risk, and incorporate it into the calculation of the TP.

(in millions of colones)

The delinquency of the balance of notes receivable from payment arrangements (see note 11), excluding ¢2.044 MCRC (¢2.022 MCRC in 2019) in receivables from the *Empresa Propietaria de la Red*, as well as their expected loss allowance, are detailed below:

As of March 31, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	31,24%	¢	1.165	364	No
1 to 30 days	38,46%		26	10	No
31 to 60 days	18,52%		162	30	No
61 to 90 diays	24,24%		33	8	No
More than 90 days	68,01%		2.088	1.420	Yes
		¢	3.474	1.832	

As of Decembre 31, 2019 *	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	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 diays	23,53%		34	8	No
More than 90 days	67,08%		2.117	1.420	Yes
		¢	3.505	1.832	

(*) Audited figures.

(i) *Investments*

Credit risk is assessed, and investment ratings are monitored and followed-up, pursuant to the Investment Strategy and the risk profile determined by the Investments Committee.

The Group determines the financial risks to which financial operations related to financial instruments are exposed to, such as: short-term, mid-term and long-term financing; and treasury management related matters: lines of credit, bank letters, currency exchange, investments, securities issuance, among others.

During session No. 6148 of the Directive Council, held on September 07, 2015, a guideline was approved to grant authorization to the Finances Division, so that -in compliance with the Financial Hedging Strategy and Risks Policy- it engage financial hedges to mitigate the currency exchange and/or interest rate risk in financial operations. This decision also rendered null the agreement taken by the Directive Council during session No. 6063 of October 23, 2013, which established a limit of US$970 and just for colones/US Dollar hedges.

iii) Liquidity Risk:

Liquidity risks refers to the potential losses due to anticipated or forced sale of assets with unusual discounts and that do not allow fulfilling obligations, or otherwise due to a position not being timely disposed of, acquired or covered through the establishment of an equivalent contrary position, in a timely manner.

Regarding liquidity risk, actions have been generated for the energy and telecommunications businesses to provide a higher level of security in the projection of payments of the liabilities contracted, as well as a more rigorous stance on revenue projection, resulting in the ability to control treasury cash flows. These measures in the projection of liabilities and expenses, as well as for the revenue of both sectors, allow follow up and control of cash flow or liquidity risk, and also a better management of treasury operations, regarding the purchase and sale of foreign currencies and access to short- and medium-term lines of credit among others

The Finance Division performs short, mid, and long-term cash flow projections that are used to estimate purchases of foreign currency, short-term financing, as well as anticipate liquidity needs.

Treasury management involves preparing the projected cash flows with the Company´s budget information. It also prepares, on a weekly basis, a schedule with the daily cash inflows and outflows, which allows visualizing the behavior of cash flows and determining the daily liquidity needs. As part of this process, in order to obtain the most accurate payment information, especially for those cases where based on their amount have a large impact in the cash flows, and in compliance with the treasury policies, the businesses and different areas of the company must send the payment schedule of the coming 12 months. In addition, an important input is the information obtained from the institutional payment system, which not only provides the exact amount to be paid, but also the maximum payment date, as established in the agreements.

Similarly, inputs and coordination with businesses regarding the behavior of revenue and the areas responsible for managing financing that allow a better matching are important to optimize Treasury Management in order to attain a better and timely attention of payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Likewise, the Treasury policies establish the terms of payment for providers, which must be executed on or before 30 days, once a week, except for those undertakings where an unavoidable payment date has been set, as of the event that originates the payment and of the presentation of invoice. Also, the policies establish wire transfers as payment method, and payment orders are processed through the group's ERP system.

(Continued)

Lines of credit are part of the instruments that Management uses to finance working capital needs, issuance of performance or bid bonds, opening and refinancing of letters of credit, which use -throughout the years- have allowed them to become one of the most popular 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 banks with the lowest cost. Line of credit transactions are documented with a promissory note or bill of exchange, as applicable. The purpose of using lines of credit is covering mismatches between the date of receipt of revenue and the date of payment of obligations and other liabilities, typical of cash flow management

(Continued)

(in millions of colones)

Exposure to liquidity risk

The following are the contractual maturities of the financial liabilities, including estimated payments of interest and excluding the impact of the offsetting agreements, as of March 31, 2020:

		Carrying amount	Contractual Cash flow	12 months or lees	1-2 years	2-5 years	More than 5 years
Nom-current liabilities							
Securities payable	¢	1.100.030	1.748.199	79.032	541.578	322.251	805.338
Loans payables		885.861	1.461.177	119.778	343.124	343.682	654.593
Financial lease obligations		491.963	1.203.971	42.006	131.812	198.067	832.086
Account payables		6.843	6.843	-	-	-	6.843
Total non-current liabilities		2.484.697	4.420.190	240.816	1.016.514	864.000	2.298.860
Current liabilities							
Securities payable		63.458	142.047	142.047			
Loans payables		111.690	243.503	243.503	-	-	-
Finance leases obligations		21.273	66.386	22.258	-	-	-
Accounts payables		169.766	169.766	169.766	-	-	-
Accrued interest payables		29.184	29.184	29.184	-	-	-
Total current liabilities		395.371	650.886	606.758	-	-	-
	¢	2.880.068	5.071.076	847.574	1.016.514	864.000	2.298.860

(Continued)

(in millions of colones)

The following are the contractual maturities of the financial liabilities of the Group as of December 31, 2019*, including interest:

		Carrying amount	Contractual cash flows	12 months or lees	1-2 years	2-5 years	More than 5 years
Nom-current liabilities							
Securities payable	¢	1,090,118	1,715,497	66,935	573,797	381,050	693,715
Loans payables		899,030	1,266,110	38,253	273,736	278,947	675,174
Financial lease obligations		457,145	789,653	32,578	141,527	182,714	432,834
Account payables		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 payables		87,129	89,702	89,702	-	-	-
Finance leases obligations		20,110	22,446	22,446	-	-	-
Accounts payables		122,362	122,362	122,362	-	-	-
Accrued interest payables		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

(*) Audited figures.

The incoming (outgoing) cash flows disclosed in the foregoing table represent the undiscounted contractual cash flows related to derivative financial liabilities held for risk management purposes and that usually are not settled before their contractual maturity. The disclosed information shows net cash flows for the derivatives that are settled in net cash and the incoming and outgoing gross cash flows for the derivatives that are simultaneously settled in gross cash.

Just as stated in note 19, the Group has secured banking loans that include debt restrictions. Failure to comply with such restrictions could entail that the Group pay the loan before its maturity, as stated in the foregoing table. Therefore, the conditions of loans are periodically monitored by the Treasury Department and are periodically reported to the management to make sure that they are complied with.

iv) *Market risk*

The market risk is the risk resulting from changes in market prices, such as exchange rates and interest rates, that affect Grupo ICE's revenue or the value of the financial instruments it holds. The goal of risk management is to manage and control exposure to this type of risk within reasonable parameters, while optimizing profitability.

ICE acquires derivative financial instruments to manage part of its existing market risks, which are valued according to the price established by their issuer. Hedge accounting is used for those qualifying instruments in order to mitigate volatility in the market prices of the financial instruments that have an effect on the group's profit or loss.

Derivative financial instruments are traded with first-tier banks with which non-disclosure agreements are in place, and all the documentation to trade derivatives has been formalized. ICE has made the decision, according to its risk strategy, to trade derivatives specifically for existing liabilities.

The financial operations assumed cover the following risks: variations in interest rates (domestic and foreign) and foreign currency exchange rates, which affect the cash flow results, the value of instruments, and others. To summarize, the group currently holds five derivatives: one to cover interest rate risks (interest-rate swaps), two to cover Japanese Yen to US Dollar exchange rate variations, known as Cross Currency Swaps, and two to cover colón-US dollar exposure, known as currency swaps.

During session No. 6148 of the Directive Council, held on September 07, 2015, a guideline was approved to grant authorization to the Finances Division, so that -, in compliance with the Financial Hedging Strategy and Risks Policy- it engage financial hedges to mitigate the currency exchange and/or interest rate risk in financial operations. This decision also rendered null the agreement taken by the Directive Council during session No. 6063 of October 23, 2013, which established a limit of US$970 and just for colones/US Dollar hedges.

Exchange rate risk

Grupo ICE is exposed to exchange rate risk to the extent that its revenue is in a functional currency while its purchases and loans are in other currencies. The largest exposure of ICE is in US dollars (United States dollars).

The goal is to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the financial risks related to the exchange rate. These instruments must be designated as hedging instruments; instruments for speculation are not accepted. Consequently, these instruments are recorded as "hedge accounting".

Some of the instruments that may be used are the following

a) Forward
b) Plain vanilla
c) Interest rate swap
d) Exchange rate swap
e) Non delivery 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; and shall attempt to offset such potential risks according to market conditions.

(Continued)

(in millions of colones)

Exposure to currency risk

As of March 31, 2020, Grupo ICE's exposure to currency risk is as follows:

	US dollars		Yenes		Euros	
	March 31, 2020	December 31, 2019 *	March 31, 2020	December 31, 2019 *	March 31, 2020	December 31, 2019 *
Assets						
Investments in financial intruments, net	259	193	-	-	-	-
Notes other accounts receivable	5	8	-	-	-	-
Cash and cash equivalents	176	121	-	-	-	-
Trade receivable, net	13	9	-	-	1	1
Non-trade receivables	135	70	21	21	-	-
Restricted funds	1	1	-	-	-	-
Total Assets in foreign currency	589	402	21	21	1	1
Passive						
Securities payable	1,518	1,518	-	-	-	-
Loans payable	1,045	1,079	21,742	21,249	-	-
Finance lease obligations	389	389	-	-	-	-
Accounts payable	32	56	558	570	1	1
Accrued interest payable	19	75	136	122	-	-
Other liabilities	2	2	-	-	-	-
Total liabilities in foreign currency	3,005	3,119	22,436	21,941	1	1
Excess liabilities over assets	2,416	2,717	22,415	21,920	-	-

(*) Audited figures.

(Continued)

(in millions of colones)

The following exchange rates have been applied:

	Exchange rate to US Dollar	
	March	December
	2020	2019
Euro	1,095	1,12
Colones	579,32	573,53
Japanese Yen	108,25	108,50

In the case of foreign currency operations, Grupo ICE adheres to the provisions of Act No. 7558, Organic Act of the Costa Rican Central Bank [BCCR, its Spanish acronym], dated November 27, 1995. Article 89 of that Act states that institutions of the non-banking public sector shall execute their currency buy and sell transactions through the Central Bank of Costa Rica or state-owned commercial banks. These operations are to be performed using the valid exchange rates set for the date of the transaction by the Costa Rican Central Bank.

<u>Sensitivity study</u>

The following chart presents the sensitivity analysis results as of March 31, 2020 and December 31, 2019. It shows the potential impact of an increase or decrease in the US dollar to colón exchange rate. The Grupo ICE uses a 10% sensitivity index, which represents its best estimate of variations in the US dollar to colón exchange rate.

		March 2020	December 2019 *
Sensitivity to an increase in the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,399,708	1,551,692
Net position in US dollars	USD	2,416	2,717
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	¢	1,539,679	1,706,862
Loss	¢	(139,971)	(155,170)
Sensitivity to a weakening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,399,708	1,551,692
Net position in US dollars	USD	2,416	2,717
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	¢	1,259,737	1,396,523
Gain	¢	139,971	155,169

(*) Audited figures.

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

Interest rate risk

Grupo ICE, through its Corporate Hedging and Risk Management Policies and Risk Strategy, has adopted a financial hedging policy that establishes that the minimum exposure percentage in variable rates is of 40%. To comply with the policy, hedging instruments with fixed interest rates are acquired, or in relation to fixed rate liabilities, by using interest rate swaps, the group covers the variability of cash flows that can be attributed to the interest rate risk.

Exposure to interest rate risk

The Grupo ICE has important assets and liabilities represented mainly by temporary investments, long-term investments; securities and notes payable; and financial lease obligations acquired to finance its commercial operations; all which are subject to interest rate variations.

The following notes describe interest rates related to financial assets and liabilities:

	Note
Notes and other account receivable	11
Invesments in financial instruments	12
Transitory investmensts	15
Securities payable	19(a)
Loans payable	19(b)
Finance lease obligations	19(c)

Sensitivity study

When managing interest rate risk, the Grupo ICE tries to reduce the impact of short-term fluctuations in its earnings. In relation to temporary investments, long-term investments, and securities and notes payable, as well as financial leases, any permanent change in interest rates shall have an impact in the company's earnings.

(Continued)

(in millions of colones)

During the period ended on March 31, 2020, the Group estimates that a one percent increase or decrease would have resulted in the following variations in the financial assets and liabilities it holds:

		Effects on Income-Espenditure Results			
		March		December	
		2020		2019 *	
		1% strengthening	1% weakening	1% Strengthening	1% weakening
Transitory investments	¢	1,418	(1,418)	1,203	(1,203)
Long-term financial investmentes		912	(912)	1,104	(1,104)
Long-term notes receivables		22	(22)	22	(22)
Short-term notes receivables		656	(656)	552	(552)
Long-term securiteis payables		11,000	(11,000)	10,901	(10,901)
Short-term securities payable		635	(635)	630	(630)
Long-term loans effect		7,994	(7,994)	7,831	(7,831)
Finance leases payables		5,132	(5,132)	4,766	(4,766)
Net effect	¢	27,769	(27,769)	27,009	(27,009)

(*) Audited figures.

(Continued)

(in millions of colones)

b) Derivative Assets and Liabilities designated as cash flow hedges

As of March 31, 2020, cash flows related to derivative financial instruments are shown below. Expected cash flows take into account the cash flow forecasts of each derivative:

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 year	2-5 year	More than 5 years
Cross currency swap	¢	(4,091)	3,516	501	888	734	1,278	115
Cross currency swap		1,508	2,659	379	672	993	615	-
Forward staring swap		(1,402)	280	159	85	36	-	-
Non delivery currency swap stretch a-1		(273)	374	93	147	134	-	-
Non delivery currency swap 3 yeras		(837)	1,024	489	535	-	-	-
	¢	(5,095)	7,853	1,621	2,327	1,897	1,893	115

(Continued)

(in millions of colones)

As of December 31, 2019*, cash flows related to derivative financial instruments are shown below. Expected cash flows take into account the cash flow forecasts of each derivative:

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 year	2-5 year	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 staring swap		(1.099)	280	159	85	36	-	-
Non delivery currency swap stretch a-1		(267)	374	93	147	134	-	-
Non delivery currency swap 3 yeras		(1.004)	1.024	489	535	-	-	-
	¢	(4.265)	7.853	1.621	2.327	1.897	1.893	115

(*) Audited figures.

(Continued)

(in millions of colones)

In the case of cash flow hedges, expected cash flows for the primary instrument and the hedging derivative are presented below as of March 31, 2020.

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

In the case of cash flow hedges, expected cash flows for the primary instrument and the hedging derivative as of December 30, 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

(*) Audited figures.

(in millions of colones)

The general characteristics of positions exposed to market risk that are being hedged with derivatives, as of March 31, 2020, are presented below:

	PR003 stretch A D091319		PFI -019 Dollar/colon stretch A-1 E15-96556		PR004 Yenes NEM120618ICE		PF-021 Yenes C34569		Dollar/colón three years C34812601207	
Hedged debt	BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3		BONOS 2043	
Bank	Citibank		Citibank		Citibank		Scotiabank		Citibank	
Hedged principal amount	USD	49.8	USD	49.8	JPY	3,414.7	JPY	3,479.6	USD	200
Hedged amount per exchange rate	USD	-	CRC	34,178	USD	37.5	USD	28.2	CRC	113,216
Exchange rate	N/A		CRC	533	USD	91	USD	123.3	CRC	566.08
Contrat date	27/01/2009		18/09/2015		20/10/2009		03/12/2015		22/11/2017	
Hedge inception date or first payment	14/01/2010		14/01/2016		22/10/2012		20/04/2016		15/11/2017	
Hedge maturity date	14/07/2023		14/07/2023		20/04/2026		20/04/2026		15/11/2020	
Term	14 years		7 years,8 months y 5 days		14 years		10 years 5 months		3 years	
Base rate	Libor 6 Months		3.23%		-		-		6.375%	
Sprea over / under base rate	3.63%		-		2.20%		-		-	
Fixed rate	-		-		-		-		-	
Total fixed rate	6.86%		4.23%		5.11%		5.01%		-	
Strategy	Hedge		Hedge		Hedge		Hedge		Hedge	
Hedged risk	Interes rate		Exchage rate US dollar / colón		Exchage rate Yen / US dollar		Exchage rate Yen / US dollar		Exchage rate US dollar / colon	
Intrument	Interest rate swap		Non-deliverable exchage of payment flows		Cross-currency swap		Non-deliverble currency swap		Cross-currency swap	

(Continued)

(in millions of colones)

Capital Management

Article 17 of Chapter IV "Equity and Earnings" of the Act to Create the Costa Rican Electricity Institute, No. 449, dated April 8, 1949 states that "Grupo ICE's financial policy will be to reinvest the net profit it receives from the sale of electricity and from any other sources, to finance and execute national electrification plans, and drive the electric power industry."

The Government shall not receive any part of the earnings, as Grupo ICE cannot be considered a productive source of revenue for the Costa Rican Tax Authority. Instead, it is to use all means at its disposal to increase the production of electricity as a basic industry of the Nation.

The policy is to maintain a strong capital base so as to maintain general market confidence and secure the future growth of ICE

The goal is to maximize the return of the Group's capital and financial investments by adequately balancing the levels of debt and invested capital, while also minimizing risk.

In 2019, Grupo ICE's capital management remained unchanged, as the institution is not subject to any external capital requirements.

Grupo ICE's adjusted debt-equity ratio on the date of the consolidated statement of financial position is as follows:

Debt to equity ratio		As of March 2020	As of December 2019 *
Total liabilities	¢	3,422,056	3,313,718
(-) Cash and cash equivalent		(267,977)	(203,412)
Net debt		3,154,079	3,110,306
Total equity		2,727,456	2,756,846
Less:			
Amount accumulated in equity related to cash flow hedges		(5,567)	(3,813)
Adjusted equity	¢	2,721,889	2,753,033
Debt to equity ratio	¢	1.159	1.130

(*) Audited figures.

(in millions of colones)

<u>Estimation of Potential Loss:</u>

Pursuant to SUGEVAL's methodology, a risk rating and write-off percentage is assigned to each investment based on the maturity of the instrument, per what is stated in the following charts:

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 y otros	C y otros	C y otros	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 y otros	CCC y otros	CCC y otros	10,0%

Local ratings		
Term	Rating	Weighting factor
Short term	1, 2, 3	7,5%
	otros	10,0%
Long term	AAA - A	7,5%
	BBB – B	9,0%
	CCC y otros	10,0%

Category	International qualification		Local qualification	
	Long term	Short term	Long term	Short term
1	AAA y AA	F1, A-1 y P-1	-	-
2	A y BBB	F2, A-2 y P-2	-	-
3	BB	F3 y P-3	Scr-AAA y AAA(cri) scr-AA y AA(cri)	Scr-1 y F1(cri) scr-2 y F2 (cri)

Write-off percentages are applied as follows: investments of the Costa Rican Central Bank 0%; Government and Ministry of Finance, 0.5%; repurchase agreements are subject to a counterparty rating; and unrated issuances, which are classified as "other", are subjected to a 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”.

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INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

As of March 31, 2020, risk ratings reported for Grupo ICE are as follows:

Transmitter	Isin	Instrument	Rate risk
Bank Cathay	00CATAYE01K8	Term certificate of deposit (global bond)	SCR2-
Bank Cathay	00CATAYE1035	Term certificate of deposit (global bond)	SCR2-
Bank Cathay	00CATAYE6448	Term certificate of deposit (global bond)	SCR2-
Bank Cathay	00CATAYE6471	Term certificate of deposit (global bond)	SCR2-
Central Bank of Costa Rica	CRBCCR0B5004	Fixed-rate Monetary Stabilization Bond	BB-
Bank of Costa Rica	0NR0ICE00808	Term certificate of deposit	SCR1
Bank of Costa Rica	0NR0ICE00809	Term certificate of deposit	SCR1
Bank of Costa Rica	0NR0ICE00810	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00811	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00812	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00813	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	00BIMPRE1193	Term certificate of deposit (global bond)	SCR2
Improsa Bank	00BIMPRE6572	Term certificate of deposit (global bond)	SCR2
International Bank of Costa Rica -Miami-	0NR0ICE00358	Overnight BID 2747	BB+
International Bank of Costa Rica -Miami-	0NR0ICE00689	Overnight BEI	BB+
International Bank of Costa Rica -Miami-	0NR0ICE00806	Overnight BID 3589	BB+
National Bank of Costa Rica	0NR0ICE00807	Term certificate of deposit	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1802	Term certificate of deposit (global bond)	AA+(cri)
National Bank of Costa Rica	USP14623AC98	BNCR Bond	AA+(cri)
Popular Bank And Community Development	00BPDC0BJW83	Term certificate of deposit (global bond)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CJN18	Term certificate of deposit (global bond)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CJY49	Term certificate of deposit (global bond)	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7168	BPDC bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7341	BPDC bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7390	BPDC bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7556	BPDC bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7580	BPDC bond	AA+(cri)
PRIVAL Bank S.A. (Old BANSOL Solutions Bank)	00PRIVAE04I1	Term certificate of deposit (global bond)	SCR2
PRIVAL Bank S.A. (Old BANSOL Solutions Bank)	00PRIVAE6333	Term certificate of deposit (global bond)	SCR2
Proméricas Bank	00BPROME0270	Term certificate of deposit (global bond)	SCR3
Proméricas Bank	00BPROME0411	Term certificate of deposit (global bond)	SCR2+
Proméricas Bank	00BPROME6533	Term certificate of deposit (global bond)	SCR2
Scotiabank of Costa Rica, S.A.	CRSCOTIB1292	Scotiabank bond	AAA(cri)
Trust Distinguished Fire Brigade	CRFTBCBB0051	FTBCB Bond	SCR AA
Financial Desyfin	00FDESYE01D4	Term certificate of deposit (global bond)	SCR2
Financial Desyfin	00FDESYE01O1	Term certificate of deposit (global bond)	SCR3
Financial Desyfin	00FDESYE03D0	Term certificate of deposit (global bond)	SCR2
Financial Desyfin	00FDESYE9872	Term certificate of deposit (global bond)	SCR3
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO Bond	SCR AAA
Government	CRG0000B20I1	Propierty title	BB-
Government	CRG0000B21I9	Propierty title	BB-
Government	CRG0000B56G9	Propierty title	BB-
Government	CRG0000B56H7	Propierty title	BB-
Government	CRG0000B76H5	Propierty title	BB-
Government	CRG0000B82H3	Propierty title	BB-
Government	USP3699PAA59	Bond external debt Costa Rica	BB-
Mutual Group Alajuela-Savings and Loan Housing	00MUCAPE01X2	Term certificate of deposit (global bond)	F1+ (cri)
Mutual Group Alajuela-Savings and Loan Housing	00MUCAPE02K7	Mortgage participation certificate	SCR2
Costa Rican Oil Refinery	CRRECOPB0012	Standard Recope Bonus	AAA (cri)
Costa Rican Oil Refinery	CRRECOPB0020	Standard Recope Bonus	AAA (cri)
Popular Bank SAFI Colones	FI-000000006	Investment fund Colones	scr AA2 (cr)
Popular Bank SAFI Dollars	FI-000000007	Investment fund Dollars	Scr AA3 (cr)
International Bank of Costa Rica -Miami-	N/A	Term certificate of deposit	A+.pa
National Bank of Costa Rica	N/A	Term certificate of deposit	AA+
National Bank of Costa Rica	Fondos Abiertos	Investment fund Dollars	Scr AA2 (cr)
National Bank of Costa Rica	N/A	Term certificate of deposit	AA+
Government	N/A	Zero-coupon Central Bank bond, dollars	BB-

(Continued)

(in millions of colones)

Nota 32. Contingent assets and liabilities

As of March 31, 2020, Grupo ICE was involved in the following legal proceedings:

	Number of cases	Estimated amount of the claim	As of March 31, 2020	As of December 31, 2019*
			Litigation provision	
Contingent assets - lawsuits filed by Grupo ICE:				
Execution of judgment (Administrative)(1)	26	7,062	-	-
Ordinary Administrative (2)	19	4,792	-	-
Other	94	485	-	-
Total contingent assets	139	12,339	-	-

	Number of cases	Estimated amount of the claim	As of March 31, 2019	As of December 31, 2019*
			Litigation provision	
Contingent liabilities - lawsuits filed against Grupo ICE:				
Administrative and Civil Court of Finance (3)	19	42,188	243	243
Ordinary (Administrative)	37	5,466	735	617
Administrative proceedings	93	898	44	44
Execution of judgment (Administrative)	11	1,776	44	44
Other	85	4,695	381	441
Total contingent liabilities	245	55,023	1,446	1,389
Less reclassification of not current portion			31	418
Current			1,415	971

(*) Audited figures.

Below is the definition of the main types of proceedings and jurisdictions recognized by Grupo ICE:

a) Arbitration: the resolution of a litigation without going to an ordinary jurisdiction. The parties, by mutual consent, decide to appoint an independent third party, referred to as arbitrator, or an arbitration tribunal, that shall be in charge of settling the dispute. The arbitrator, in turn, shall be limited by the agreement made between the parties to enter the arbitration award. The arbitration award must be rendered in accordance with the applicable law chosen by the parties, or otherwise based on equity, if that is an option.

b) Contentious: a judicial proceeding to review a conduct under the guardianship of the Contentious Jurisdiction. The Contentious-Administrative Jurisdiction seeks to protect the legal situations of every person, guarantee or reestablish the lawfulness of any conduct of the Public Administration subject to the Administrative law and hear and settle different aspects of the legal-administrative relationship. (Article 1 of the Contentious-Administrative Procedural Code).

c) Administrative: an administrative proceeding is processed at an administrative court and must comply with the provisions contained in the General Public Administration Act, article 214, paragraph one, to ensure that the Government best complies with its goals, while respecting the subjective rights and lawful interests of citizens, in accordance with legal systems.

Contingent assets:

Among the contingent assets and liabilities that have the largest claims are:

(1) The ICE awarded a tender to create telephone guides to Verizon. Upon Verizon's breach, the ICE started a judicial proceeding in the contentious-administrative jurisdiction in 2005 to collect damages, and requested, as injunctive relief, the seizure of the monies that ICE had deposited. The following is the current state of the Process: "By means of a resolution issued by the First Chamber of the Supreme Court of Justice, the defendant is sentenced to pay for the damages caused by the contractual breach, per the provided estimates." As of March 31, 2020, the estimated amount was equal to ¢1,629 (¢3,781 as of December 31, 2019).

(2) Contentious process to enforce judgment that seeks that RECOPE pay to ICE the financial damages that it suffered as a result of the extra cost that it had to incur because it had to use diesel in the Garabito, Orotina and Guápiles production centers as a result of a delayed delivery of fuel. These amounts were awarded under judgment number 133-2016 by the Contentious-Administrative Court. The amount estimated, as of March 31, 2020 and December 31, 2019, was ¢1,030.

Contingent liabilities:

(3) Ordinary Contentious Process,

i. Docket No. 18-011595-1027-CA. The ICE is requested to reinstate $4.6 million that it had agreed under the acquisition of Cable Vision on December 05, 2013, which relate to tax contingencies payable to the Tax Authority, in relation to the fiscal years of such company before it was sold. ICE is opposed to the amount of such claim, since such an amount should be offset with the deductions from the 2010 to 2013 periods. As of March 31, 2020, estimated amount was ¢1,674.

ii. Lawsuit filed by the company Hidroeléctrica Noble, S.A. against the Government, the CNFL and the *Instituto Costarricense de Electricidad*, under dockets no. 19-004362-1027-CA and 18-007030-1027-CA, which seeks that the CNFL be declared dissolved given that its social term of existence has expired. The lawsuit demands that ICE continue supplying the services of the CNFL and acquire all of the shares of the plaintiff at a price determined by the Administrative Fiscal Court of the Ministry of Finance. It also demands that ICE assumes all assets and liabilities of the CNFL and that all procedural and personal costs be awarded against it. The amount estimated, as of March 31, 2020, is of ¢814.

(4) Execution of contentious proceeding under docket number 16-00648-1027-CA, whereby ARESEP and SUTEL filed a petition for a court order awarding personal costs, plus the corresponding legal interest. The sum of such costs was requested based on an estimate of damages caused by ICE and applying the corresponding fees and applicable interest rates. On March 25, 2019, the ICE answered the claim, rejecting the claims requested by both parties, and requesting that they each be awarded ¢1 in damages. As of March 31, 2020, and December 31, 2019, the estimated amount was equal to ¢1,731.

(5) Execution of proceeding under docket number 17-003025-1763-CJ, filed by the Costa Rican Social Security as a result of a judicial collection proceeding filed against ICE, whereby it is requesting that it pay the social security contributions owed to the IVM [Spanish acronym for "disability, old age and death insurance"] fund, in compliance with article 78 of the Workers Protection Act. An objection was filed by ICE, as it must reinvest its profit. In addition, the Costa Rican Social Security is charging ICE monies that are owed by its subsidiaries, and this is not admissible. As of March 31, 2020, and December 31, 2019, the estimated amount was equal to ¢2,186.

The following proceeding, which involves one of its subsidiaries, is included within the Group's main contingent liabilities:

i. Ghella Spa Costa Rica-Docket No. 10-3471-1027-CA: This claim seeks to annul the limitations established in Addendum No. 1 of the Agreement for the 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 *Compañía Nacional de Fuerza y Luz, S.A.* because the latter executed the performance bond to collect penalties. Furthermore, the plaintiff filed a formal claim for consequential damages, loss of profit and loss of opportunity. The estimated amount of the proceedings is ¢7,846.

iii. Instalaciones Inabensa, S.A.- File No. 5-1194-163-CA: This case was initiated for the collection of an estimated ¢11,081 in penalties during the execution of the project for underground electrification of San Jose. The plaintiff seeks the collection of claims and reimbursement of penalties filed during the stage of execution of the aforementioned project.

These legal proceedings are against the subsidiary *Compañía Nacional de Fuerza y Luz, S.A.* This subsidiary appealed such claims and, as of March 31, 2020, information is still lacking to establish the possible final resolution of the matter. Due to the uncertainty of how other claims will be settled, the Management of this subsidiary has not deemed it necessary to record any provisions to cover possible losses that might derive from such resolution.

In addition, as of March 31, 2020, the status of the P.H. Chucás and Hidrotárcoles projects, are presented below:

(a) <u>P.H. Chucás Project:</u>

The Chucás Hydroelectric Power Plant is a B.O.T. (Build, Operate and Transfer) project built by P.H. Chucás, S.A., and located in the counties of Mora and Atenas, provinces of San José and Alajuela, respectively. Its construction began on 2011, reason why its commissioning was expected for September 2014. However, due to delays in the construction process, the hydroelectric power plant was ready to start operating until November 2016. Due to this delay, and as stated in the power purchase agreement executed on February 3, 2011, the ICE proceeded to issue a fine for US$9.4 (approximately ¢5.092).

Thereafter, the company started an arbitration proceeding before the International Center for Conciliation and Arbitration (CICA, its Spanish acronym), an entity that is affiliated to the US-Costa Rican Chamber of Commerce (AmCham), claiming that excess costs incurred during the construction of the hydroelectric power plant had not been recognized, and that it be declared that ICE had no right to collect such fine, as the delay was caused by Force Majeure. The alleged excess costs amounted to the sum of US$173 (the budget allocated for the construction was US$107, even though the final cost reported to the Arbitration Tribunal was approximately US$280), which, according to the company, were caused by unforeseeable events such as geological changes, among others. In November 2017, the CICA issued an arbitration award in favor of P.H. Chucás, S.A., stating that the ICE had to pay the amount claimed for alleged excess costs, professional fees, among others. In addition, it declared that the ICE had no right to collect the criminal clause (the aforementioned penalty). The main argument used to sentence the ICE to pay the excess costs in the mentioned legal proceeding pointed out that the ICE was under the obligation of paying for the actual cost or value, to reestablish the financial equilibrium of the agreement and avoid the alleged enrichment, without cause, of ICE. The sentence states that ICE must pay US$112.7 and ¢6,328.

On December 15, 2017, the filed an Appeal for Annulment of an Arbitration Award before the First Chamber of the Supreme Court of Justice, alleging that certain defects that rendered the award null existed, such as: conflict of interest of the arbitrators, violation of due process, violation of the principle of impartiality, violation of arbitration procedural rules by refusing to grant the right to hear evidence and unfair treatment, lack of consensus in the case law, violation of rules of public order, among others. According to the Alternate Dispute Resolution Act, the filing of this appeal for annulment does not suspend the execution of the Award and, therefore, the contractor could request the execution thereof, even though, for such purposes, the contractor would have to file a judicial proceeding to "execute the award" against ICE and this would necessarily entail that ARESEP be a part thereof, as the entity that regulates the business of electricity and that is responsible for setting rates. The management of ICE and its legal advisors expect a positive outcome given the arguments in the appeal for annulment that was filed before the First Chamber of the Supreme Court of Justice, and the criminal claim filed against the arbitrators in the Public Prosecution Office, that is to say, they expect that the case will be finally settled in favor of ICE and, therefore, do not consider necessary to record any provision to cover any losses that could eventually arise from the resolution of the case.

As of June 27, 2019, by means of vote 2019000989, the First Chamber of the Supreme Court of Justice admitted appeal for annulment filed by ICE and annulled the Award, thus waiving the payment obligation. The "therefore" section of the ruling states:

"The appeal for annulment listed in pages one to sixteen, and eighteen, is admitted. The request to order Messrs. Diego Salto and Rafael Luna to certify if Grupo Enel or its companies have been clients of the law firms that they have directed during the last 10 years, or otherwise of Batalla Abogados and Consortium Legal, is hereby denied. The contestation is admitted. The appealed award is annulled. Notify this decision to the Bar Association so that they investigate the conduct of attorney-at-law Mario Pacheco Flores."

The vote of the First Chamber was notified on September 6th, 2019. Upon analysis, the company determined to file a request for addition and clarification, as the vote did not make reference to the costs. In the request for annulment filed by ICE in December 2016, the plea included the following request: "Award costs to the party filing the request for annulment". The Chamber's decision is still pending.

(b) <u>Hidrotárcoles Project</u>

The P.H. Capulín Project is a B.O.T (Build, Operate and Transfer) project started by the company P.H. Hidrotárcoles, S.A. that was contemplated in power purchase agreement no. 2012000023, entered by and between that company and ICE on April 24, 2012. This project is located in the counties of Turrubares and Atenas, in the provinces of San José and Alajuela. According to the terms of this agreement, once the start order was given, such company had to start building the power plant on August 2012, and the commissioning of the plant had to take place on August 2015. Nevertheless, due to delays in the construction process, on December 2015, the ICE started an administrative proceeding to settle the agreement and declare a penalty against the company Hidrotárcoles, S.A., for its breach of the guaranteed commissioning date, as only 20% of the works had been completed as of the date it had to start operating. Likewise, in accordance to what the agreement states, the ICE proceeded to notify the representatives of the Creditors, i.e., the *Banco Nacional de Costa Rica*, and inform it about its decision to settle the agreement, as well as of its decision that ICE would not continue with the project. All of this complied with the provisions of the power purchase agreement.

In light of the foregoing, in December 2015, the company filed a request for an injunctive relief before the Contentious-Administrative Tribunal in order to suspend the aforementioned proceeding. The Tribunal admitted such relief in January 2016, ordering the suspension of such proceeding. In addition, on February of that same year, the company Hidrotárcoles filed a lawsuit against ICE in the Contentious Tribunal, whereby it requested that several administrative acts that gave origin to the aforementioned proceeding be annulled, and whereby it aims that Hidrotárcoles be given the right to modify the guaranteed commissioning date and ICE be sentenced to pay damages, among other things.

The company Hidrotárcoles continued requesting the same injunctive relief to the Contentious Tribunal, not only in such lawsuit, but also at other times, in order to prevent ICE from continuing with the contractual resolution proceeding. Nevertheless, on February 21, 2017, the Court of Appeals of Contentious-Administrative Matters, finally rejected the injunctive measure, and, as of that resolution, ICE was allowed to continue with the aforementioned procedure. During the course of such proceeding, the company Hidrotárcoles also attempted, on several occasions, to stop it, with repeated actions to challenge the members of such body. It even filed a lawsuit against the officers that comprised such body, although all of the appeals were rejected, and the lawsuit was declared inadmissible by the Contentious Administrative Court in January 2018.

During the course of the administrative proceeding, the company, Hidrotárcoles, was guaranteed, at all times, its right to a defense and to a due process, in which it could file all of the claims and evidence that it deemed pertinent to contest the alleged noncompliance. This proceeding ended with a final ruling by the deciding body, by means of order No. 5201-10-2018, dated January 15, 2018, in which it approved the resolution of the agreement and the penalty against the company Hidrotárcoles, S.A., in relation to Public Tender No. 2006-000043-PROV.

On January 18, 2018, within the established time frame, the company Hidrotárcoles formally filed, against ICE, a motion for revocation of judgment with supplementary appeal and concomitant nullity against such final ruling. This motion for revocation was settled by the deciding body on March 12, 2018. Thereafter, on April 12, 2018, the Corporate Services Management settled the appeal and concomitant nullity motion, thereby exhausting the administrative instance. On May 03, 2018, the Contentious-Administrative Court notified ICE a request for a provisional injunctive relief filed by the BNCR, whereby it was requesting that the ICE take immediate possession and control of the Capulín San Pablo Hydroelectric Project while the dispute between the parties is settled.

Resolution 571-2018-T of the Contentious-Administrative Court, issued on October 05, 2018, rejected the request made by the BNCR. However, on October 11, 2018, the representatives of the *Banco Nacional de Costa Rica* filed a motion, which was admitted, to appeal such Resolution. During a hearing of the appeal held on November 27, 2018, the Court of Appeals rejected the measure that was filed and restated what it had ruled in Resolution 571-2018-T. On December

18, 2018, the BNCR filed a proceeding leading to a declaratory judgment against the *Instituto Costarricense de Electricidad* under file number 18-011428-1027-CA.

In addition, on May 03, 2018, the Contentious-Administrative Court notified a request for a provisional injunctive relief filed by Hidrotárcoles against the ICE and the BNCR, in which it requested that the execution of the following acts be suspended: ICE: the final act of contractual resolution and the resolution of the motion for revocation with appeal. BNCR: act to suspend the disbursements and act to execute the performance bonds. This request for an injunctive relief was rejected by the Contentious-Administrative Court by means of a resolution issued on April 26, 2018, and a hearing was granted to both parties. Thereafter, by means of resolution 420-2018-T, issued at 09:15 on July 18, 2018, the Contentious Court finally rejected such injunctive relief.

On July 24, 2018, Hidrotárcoles, S.A. filed an appeal against resolution 420-2018-T. During a hearing held on September 24, 2018, the Court of Appeals, by means of resolution number 397-2018-II, due to procedural aspects, returned the file to the first instance Judge so that he would settle the matter. On November 12, 2018, the first instance judge, by means of resolution 634-2018-T, fully rejected all of the scopes of the requested injunctive relief. Hidrotárcoles filed an appeal against resolution 634-2018-T and a hearing was scheduled for January 24, 2019. Such a hearing was suspended due to procedural aspects. The scheduling of a new hearing is still pending.

On May 09, 2019, the hearing relating to the appeal filed by Hidrotárcoles was held, and the request for the relief was rejected and, therefore, the contents of resolution 634-2018-T were upheld.

As of March 31, 2020, the Grupo ICE has allocated an amount equivalent to ¢1,415 (¢971 in 2019) to a provision related to the legal proceedings mentioned in the chart of contingent liabilities.

Due to the uncertainty of what the final results of such legal proceedings will be, as of March 31, 2020, the Grupo ICE had not allocated any additional funds to such provision to cover any possible obligations that could arise as a result of the final resolution thereof.

(in millions of colones)

Nota 33. **Balances and transactions with related parties**

The balances and transactions with related parties are detailed below:

Business and financial transactions:

During the year, Grupo ICE executed the following business transactions with related parties:

		Sale of goods and services		Purchase of goods and services	
		For year ended			
		31/03/2020	31/03/2019	31/03/2020	31/03/2019
Construction services:					
Municipalidades	¢	384	-	563	-
Instituto Costarricense de Acueductos y Alcantarillados		605	-	766	-
Consejo Nacional de Vialidad		158	-	45	-
Consejo de Seguridad Vial		108	-	106	-
Caja Costarricense del Seguro Social		28	-	-	-
Engineering services:					
National Emergency Comission (CNE)	¢	-	18	-	-
Other related parties		249	290	538	-
Sale of energy:					
Government entities		1,453	1,234	-	-
Interest:					
Subsidiaries		-	-	-	-
Government entities		1,340	1,861	-	-
Autonomous institutions		168	234	-	-
State-owned financial entities		1,068	1,081	3,561	2,737
Other services:					
Government entities		6,173	6,608	921	796
State-owned financial entities (1)		-	-	8,900	17,945
Other related parties		288	446	686	762
	¢	12,023	11,771	16,086	22,240

(in millions of colones)

(1) These are lease installments for the Garabito, Cari Blanco and Toro III Trusts. In addition, a building and premises maintenance fee in the amount of ¢62 was added.

The sales of goods and services to related parties are made at the list prices of Grupo ICE. The purchases are made at the market price to reflect the amount of goods purchased and the relationships between the parties

The following balances receivable and payable were outstanding at the end of this reporting period:

		Receivable		Payable	
		31/03/2020	31/12/2019	31/03/2020	31/12/2019
Government entities		5,413	4,123	408	472
Autonomous institutions		6,225	6,225	6,074	6,074
state-owned financial entities		-	-	-	-
Other related parties		2,363	2,363	-	-
	¢	14,001	12,712	6,483	6,547

(*) Audited figures.

The balances do not include expenses from public services (electricity, water, telecommunications, social security, and tax burdens).

The outstanding amounts are not guaranteed and are expected to be settled in cash. No guarantees have been granted or received. No expenses have been recognized in the current period or previous periods regarding doubtful accounts related to the amounts owed by related parties.

As of March 31, 2020, the Group maintained notes and leases payable with government financial institutions in the amount of ¢285,692 (¢235,549 as of December 31, 2019).

The following balances are related to financial investments and restricted-use funds placed in or by state-owned financial entities:

		As of March 31, 2020	As of December 31, 2019
Cash equivalents	¢	6,578	7,639
Held to maturity		59,576	72,064
Restricted funds		2,182	1,978
	¢	68,336	81,681

As of March 31, 2020, interest receivable from securities issued by state-owned financial entities amount to a total of ¢2,579 (¢1,505 as of December 31, 2019).

As of March 31, 2020, investments in the share capital of autonomous and non-governmental entities amounted to ¢36,496 (¢36,521 in 2019) (see note 10).

(in millions of colones)

Compensation of management's key staff

The compensation of directors and other key members of management during the 2020 and 2019 periods was as follows:

		As of March 31,	
		2020	2019
Short-term benefits	¢	1,558	1,552
Severance benefits		36	37
Post-employment benefits		98	106
Other long-term benefits		18	-
	¢	1,710	1,695

The compensation of management's key staff includes balances and contributions to a defined post-employment benefit plan, for termination, and other long-term benefits paid during the period.

Nota 34. Information by segment

(a) Bases for segmentation

Grupo ICE has the following reportable segments:

- The Telecom Segment includes ICE-telecommunications sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA), and Gestión Cobro Grupo ICE, S.A. 94.18% (94.18% in 2019).

- The Electricity Segment includes the ICE-electricity sector, Compañía Nacional de Fuerza y Luz, S.A. (CNFL). and Gestión Cobro Grupo ICE, S.A., 5.82%

  (5.82% in 2019).

The information by segment is submitted to the highest authority in charge of the operational decision making of the Group with the purpose of allocating resources and evaluating the performance of each segment; it is focused on the different sectors of the Institute (business segment), which are exposed to different risks and yields.

The results, assets, and liabilities of the segment includes items directly attributable to a segment, as well as those that can be reasonably attributed. - Information related to each segment that requires reporting is stated in the following section.

(in millions of colones)

(b) Products and services that generate the revenue from the segments that need to be reported

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

(c) Revenue and results by segments

An analysis of the revenue and the results of Grupo ICE from the operations by segment to

be informed is as follows:

		For the March 31, 2020 and December 31, 2019					
		Electricity		Telecom		Consolidated total	
Profit (loss) per segment		2020	2019	2020	2019	2020	2019
Income per segment	¢	213,628	204,481	150,005	153,130	363,633	357,611
Investment income		5,095	4,009	635	1,156	5,730	5,165
Finance costs		(46,122)	(41,290)	(4,016)	(2,914)	(50,138)	(44,203)
Foreign exchange differences, net		(20,412)	30,685	(4,386)	4,799	(24,798)	35,484
Income from investments in other companies		-	-	(13)	14	(13)	14
Deficit (Surplus), net		(31,643)	(13,063)	839	1,122	(30,804)	(11,941)

The revenue by segment, as informed in the foregoing paragraphs, accounts for the revenue

generated by external clients

The revenue among segments is as follows:

- The revenue from service sales of the electricity segment to the telecommunications segment amounts to ¢2,075 for 2020 (¢1,686 in 2019).
- The revenue from service sales of the telecommunications segment to the electricity

  segment amounts to ¢708 for 2020 (¢595 in 2019).

(in millions of colones)

The accounting policies of the segments that are informed are the same as the accounting policies of the Group. The profits by segment represent the profits earned by each segment without an interest in the results of the period, the investment income, other profits or losses, as well as the financial costs that cannot be allocated to a specific segment. This represents the measurement reported to the decision maker of the operating area for the purposes of allocating the resources and assessing the performance of the segments.

(d) Assets and liabilities by segments

		As of March 31, 2020 and December 31, 2019					
		Electricity		Telecom		Consolidated total	
Assets and liabilities by segment		2020	2019*	2020	2019*	2020	2019*
Assets	¢	4,902,321	4,870,333	1,247,679	1,200,231	6,150,000	6,070,564
Liabilities		2,903,461	2,839,636	519,083	474,082	3,422,544	3,313,718

(*) Audited figures.

In order to monitor the performance of the segments and allocation of resources among segments:

- There are no assets and liabilities that have not been allocated to the segments.

- All the assets and liabilities jointly used by the segments that have to reported are allocated according to the methodology to allocate the expenditures of the Corporation to the business where the financing percentages are established according to the drivers defined by each unit for the different services provided by the administrative centers and the service centers to each business unit. Each service has a specific measurement unit and the allocation is based on the consumption of the services, which methodology is based on the ABC Costing (activity-based costing), as approved by the Board of Directors.

(in millions of colones)

(e) Other information of the Segment

		Depreciation and amortization		Additions to non-current assets	
		Period ended March, 31		Period ended March, 31	
		2020	2019	2020	2019
Telecom Segment	¢	31,632	30,493	2,532	2,083
Electricity Segment		44,845	40,008	11,879	14,267
Total	¢	76,477	70,501	14,411	16,350

Nota 35. Subsequent events

a. COVID-19 Global Pandemic Emergency

The situation caused by the pandemic (COVID-19) that is affecting the world has had, from different perspectives, a significant impact on the institution. On the one hand, the institution's ordinary operations had to be adjusted to the existing situation, given the measures that have been defined by the Government and the Health Authorities.

At an operations level, the ICE, complying with the measures to reduce onsite personnel, has made all of its virtual channels available to its customers so that they can access its services. In addition, there are many locations where customers can process their payments throughout the country that have not been affected by the measures.

Invoicing, collection, delivery, and insurance processes, as well as business support services, have been adapted to guarantee the continuity of the operations of both sectors (telecommunications and electricity). All applicable positions have been moved to telework.

In relation to business customers, they continue to be serviced remotely, thus guaranteeing the quality of the services provided. In addition, technical staff is available 24 hours a day, 7 days a week, to ensure continuity of the services provided by the institution.

ICE's power plants are operating as usual, according to their operational role and the requirements of the National Electrical System. It is clear that electricity is a vital service for the country, even more so in times of crisis. The Generation Business has maximized its efforts to guarantee the normal functioning of all processes, in particular the operation and maintenance of the power plants, thus confirming the Group's commitment to supply electricity for Costa Ricans and the Regional Market.

As part of the analysis carried out, certain payment facilities have been provided to customers who have been affected by the pandemic, both in the electricity and telecommunications business. The impact of these measures, as well as the decrease in the demand for the services of both businesses as a result of the impact suffered by several productive sectors of the country, which have seen a significant reduction of their activities, has required a thorough and rigorous analysis to determine the decline in expected revenues and take the necessary actions to maintain the financial soundness of the company.

The adjustments made seek to ensure compliance with the covenants and to service all scheduled debt payments, as foreseen in the institutional budget for 2020. Additionally, the institution benefits from already-authorized credit lines with different financial institutions that it can use, if necessary.

a. Rating issued by Fitch Ratings

On February 14, 2020, Moody's affirmed the B1 ratings of the *Instituto Costarricense de Electridad* in B1 and improved the outlook from negative to stable.

On May 8, 2020, Fitch Ratings downgraded the rating of the *Instituto Costarricense de Electridad y Subsidiarias* as a result of Fitch's recent downgrade in Costa Rica's sovereign rating from **'B +'** to **'B'**. The rating outlook remains negative,