CONSOLIDATED FINANCIAL STATEMENTS

Instituto Costarricense de Electricidad and Subsidiaries (without audit)

ICE GROUP
ICE
CNFL
RACSA
CRICSA
Cable Visión
Gestión Cobro

September 2018
Financial Management

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

Consolidated Statement of Financial Position
(In millions of colones)

As of September 30, 2018 and December 31, 2017.

Assets		2018 (Without audit)	2017 (Without audit) Restated
Non-current assets:			
Property, plant and equipment, net	¢	5,114,999	5,013,533
Intangible assets		79,626	92,078
Equity investments		30,816	30,686
Notes and other accounts receivable		2,255	3,159
Investments in financial instruments		126,363	110,412
Guarantee and Savings Fund		220,780	221,056
Assets by deferred tax		390	390
Total non-current assets	¢	**5,575,229**	**5,471,314**
Current assets:			
Inventories, net		103,157	97,039
Notes and other accounts receivable, net		126,710	66,171
Temporary investments, net		60,163	54,130
Restricted funds		1,851	1,301
Trade receivables, net		136,288	107,124
Prepaid expenses		34,306	46,485
Other assets		631	2,290
Cash and cash equivalents		323,313	188,420
Total current assets		**786,419**	**562,959**
Total assets	¢	**6,361,648**	**6,034,273**

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

Consolidated Statement of Financial Position
(In millions of colones)

As of September 30, 2018 and December 31, 2017.

Liabilities and equity		2018 (Without audit)	2017 (Without audit) Restated
Equity:			
Paid-in capital	¢	211	211
Other reserves		14,367	13,666
Restricted retained earnings from capitalization of shares in subsidiary		62,380	62,380
Actuarial gain (loss)		8,937	8,811
Income from investments in other companies		(116)	(148)
Valuation of non-derivative financial instruments and hedges		(20,615)	(16,267)
Retained earnings		314,587	203,232
Development reserve		2,508,218	2,506,594
Déficit of the period		(88,667)	-
Equity attributable to owners of ICE	¢	**2,799,302**	**2,778,479**
Minority interests		5,763	4,314
Net equity	¢	**2,805,065**	**2,782,793**
Liabilities:			
Non-current liabilities:			
Securities payable		1,172,961	1,151,314
Loans payable		869,932	883,161
Finance lease obligations		494,944	491,909
Employee benefits		89,881	83,855
Accounts payable		7,287	8,564
Prepaid income		6,699	7,008
Guarantee and Savings Fund		220,780	221,056
Liabilities by deferred tax		94,645	1,528
Other provisions		730	609
Other liabilities		53,886	52,610
Total non-current liabilities		**3,011,745**	**2,901,614**
Current liabilities:			
Securities payable		18,851	-
Loans payable		87,486	100,530
Finance lease obligations		18,778	16,703
Employee benefits		13,086	24,772
Accounts payable		274,513	107,775
Prepaid income		19,689	18,628
Accrued employer obligations payable		68,578	42,919
Accrued interest payable		33,094	21,149
Other provisions		3,402	3,034
Other liabilities		7,361	14,356
Total current liabilities	¢	**544,838**	**349,865**
Total liabilities	¢	**3,556,583**	**3,251,480**
Total liabilities and equity	¢	**6,361,648**	**6,034,273**
Memoranda accounts		**277,885**	**238,713**

Preliminary translation

Jesús Orozco Delgado
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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 September 30, 2018 and 2017

		2018 (Without audit)	2017 (Without audit) Restated
Operating income:			
Electricity services	¢	614,352	566,107
Telecom services		429,748	439,168
Total operating income		**1,044,100**	**1,005,275**
Operating costs:			
Operation and maintenance		382,760	360,636
Operation and maintenance of leased equipment		83,429	73,879
Supplemental services and purchases		160,395	135,841
Production management		48,312	53,802
Technical service center		(200)	10,051
Total operating costs		**674,696**	**634,209**
Gross profit		**369,404**	**371,066**
Other income		**25,498**	**26,721**
Operating expenses:			
Administrative		101,839	84,208
Selling		163,543	167,720
Preinvestment studies		1,163	2,647
Preliminary studies		24,670	15,040
Supplemental		148	2,128
Other		27,366	11,933
Total operating expenses		**318,729**	**283,676**
Operating surplus		**76,173**	**114,111**
Finance income and finance costs:			
Investment income		17,427	20,302
Finance costs		(147,283)	(126,624)
Foreign exchange differences, net		(35,168)	(55,143)
Income from investments in other companies		551	371
Total finance income and finance costs		**(164,473)**	**(161,094)**
Net (deficit) surplus before income tax		**(88,300)**	**(46,983)**
Income tax			
Deferred tax		(525)	(1,089)
Non-controlling interests		158	151
Net (deficit) surplus	¢	**(88,667)**	**(47,921)**

Preliminary translation.

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 September 30, 2018 and 2017

		2018 (Without audit)	2017 (Without audit)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit liability (asset)		126	(21)
Effect of eliminations of reciprocal transactions		337	2,615
Subtotal		**463**	**2,594**
Items that are or may be reclassified subsequently to profit or loss:			
Net loss on fair value of cash flow hedges		(5,777)	(8,477)
Change in fair value of available-for-sale financial assets		1,429	(1,891)
Subtotal		**(4,348)**	**(10,368)**
Other comprehensive income		(3,885)	(7,774)
Net surplus		(88,667)	(47,921)
Total comprehensive income for the year	¢	**(92,552)**	**(55,695)**
Income for the year attributable to:			
Owners of ICE		(88,825)	(48,072)
Non-controlling interests		158	151
Total	¢	**(88,667)**	**(47,921)**
Total comprehensive income for the year attributable to:			
Owners of ICE		(92,552)	(55,695)
Total	¢	**(92,552)**	**(55,695)**

Preliminary translation

Jesús Orozco Delgado
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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 September 30, 2018
(With corresponding restated figures for 2017)

	Paid-in capital	Valuation of non-derivative financial instruments and hedges	Development reserve	Other reserves: Legal reserve	Other reserves: Project development reserve	Restricted retained earnings from capitalization of investment in subsidiary	Retained earnings	Actuarial gain (loss)	Profit (loss) on investment in other companies	Net loss	Equity attributable to owners of ICE	Non-controlling interests	Net equity
Balance at January 1, 2017	156	(7,412)	2,541,155	11,979	71	62,380	219,182	(20,286)	(251)	-	2,806,974	4,586	2,811,560
Paid-in capital	55	-	-	-	-	-	56	-	-	-	111	-	111
Appropriation to legal reserve	-	-	-	1,616	-	-	(1,616)	-	-	-	-	-	-
Profit (loss) on investments in other companies	-	-	-	-	-	-	-	-	103	-	103	-	103
Net surplus before appropriation to non-controlling interest	-	-	(36,240)	-	-	-	(15,744)	-	-	-	(51,984)	-	(51,984)
Other comprehensive income for the year:	-	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurement of defined benefit liability (asset)	-	-	-	-	-	-	917	29,097	-	-	30,014		30,014
Effect of eliminations of reciprocal transactions	-	-	1,679	-	-	-	165	-	-	-	1,844	-	1,844
Net loss on fair value of cash flow hedges	-	(6,445)	-	-	-	-	-	-	-	-	(6,445)	-	(6,445)
Net change in fair value of available-for-sale financial assets	-	(2,410)	-	-	-	-	-	-	-	-	(2,410)	-	(2,410)
Appropriation to non-controlling interests	-	-	-	-	-	-	272	-	-	-	272	(272)	-
Balance at December 31, 2017	¢ 211	(16,267)	2,506,594	13,595	71	62,380	203,232	8,811	(148)	-	2,778,479	4,314	2,782,793
Effect of eliminations by homologation adjustments	-	-	-	-	-	-	114,790	-	-	-	114,790	-	114,790
Effect of eliminations of reciprocal transactions	-	-	1,624	-	-	-	(1,287)	-	-	-	337	-	337
Profit (loss) on investments in other companies	-	-	-	-	-	-	-	-	32	-	32	-	32
Appropriation to legal reserve	-	-	-	699	-	-	(699)	-	-	-	-	-	-
Deficit before appropriation to non-controlling interest	-	-	-	-	-	-	-	-	-	(88,667)	(88,667)	-	(88,667)
Other comprehensive income for the year:													
Remeasurement of defined benefit liability (asset)	-	-	-	-	-	-	-	126	-	-	126	-	126
Net loss on fair value of cash flow hedges	-	(5,777)	-	-	-	-	-	-	-	-	(5,777)	-	(5,777)
Net change in fair value of available-for-sale financial assets	-	1,429	-	-	-	-	-	-	-	-	1,429	-	1,429
Appropriation to non-controlling interests	-	-	-	-	-	-	(1,449)	-	-	-	(1,449)	1,449	-
Balance at September 30, 2018	¢ 211	(20,615)	2,508,218	14,294	71	62,380	314,586	8,937	(116)	(88,667)	2,799,302	5,763	2,805,065

Preliminary translation.

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

Consolidated Statement of Cash Flows
(In millions of colones)

For the nine months September 30, 2018 and 2017
(With corresponding restated figures for 2017)

		2018 (Whitout audit)	2017 (Whitout audit) (Restated)*
Cash flows from operating activities:			
(Deficit) for the year	¢	(88,667)	(47,921)
Adjustments for:			
Depreciation		202,816	208,993
Finance costs		108,315	101,187
Severance benefits		17,690	16,658
Statutory Christmas bonus		13,925	13,590
Back-to-school bonus		13,869	13,323
Accrued vacation		9,838	11,817
Liabilities		558	-
Allowance for doubtful accounts		4,101	6,359
Allowance for valuation of inventory		971	-
Expense on disposal of assets		1,747	8,825
Absorption of amortizable and intangible items		18,208	10,069
Net realizable value		1,184	-
Foreign exchange differences		41,369	57,761
Earned interests		(12,892)	(12,298)
Loss on valuation of financial instruments		(4,348)	(14,023)
		417,351	422,261
Changes in:			
Increase in trade receivables and other accounts receivable		(98,158)	(16,937)
Increase (Decrease) in inventories		(971)	7,298
Decrease in other assets		11,629	5,620
Increase (Decrease) in accounts payable		165,461	(6,639)
Increase in security deposits		1,276	1,343
Increase in prepaid income		752	3,080
(Decrease) Increase in severance benefits		(1,253)	622
Decrease in employer obligations		(11,973)	(25,139)
Increase (Decrease) in other liabilities		65,647	(1,137)
Cash flows from operating activities		461,094	342,452
Interest paid		(98,749)	(93,530)
Interest received		12,032	11,913
Net cash from operating activities		374,377	260,835
Cash flows from investing activities			
Increase in long-term investments		(16,082)	(45,089)
Additions to property, plant and equipment		209	(189,558)
Increase in other assets		(195,546)	(5,860)
Increase (Decrease) in temporary investments		(6,033)	25,459
Net cash used in investing activities		(217,452)	(215,048)
Cash flows from financing activities:			
Increase in securities payable		19,478	493
Amortization of securities payable		-	(615)
Increase in loans payable		33,301	76,318
Amortization of loans payable		(74,291)	(65,828)
Increase of finance leases		7,857	4,208
Amortization of finance leases		(8,377)	(7,756)
Net cash (used in) from financing activities		(22,032)	6,820
Net increase (decrease) in cash and cash equivalents		134,893	52,607
Cash and cash equivalents at beginning of year		188,420	201,467
Cash and cash equivalents at end of year	¢	323,313	254,074

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Nota 1. <u>Reporting Entity</u>

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

Grupo ICE is a group of government-owned entities, including the *Instituto Costarricense de Electricidad* (ICE, parent company and ultimate controlling entity) and its subsidiaries, *Compañía Nacional de Fuerza y Luz, S.A*. (C.N.F.L.), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internationals Costarricense, S.A. (CRICSA), Cable Visión de Costa S.A. (CVCRSA), and Gestión de Cobro Grupo ICE, S.A., all of them organized under the laws of the Republic of Costa Rica. Other entities, which are not operational as of June 30, 2018, are wholly owned by ICE.

ICE's main activity consists of developing electric power-producing sources existing in the country, including the supply of electricity and telecommunication services. In relation to the electric activity, it has the exclusive right to generate, transmit, and distribute electricity in Costa Rica, except for a small number of authorized private companies, municipal entities, and rural cooperatives. As to telecommunications, Grupo ICE holds a concession to develop and promote telecom services in Costa Rica, rendering a wide array of services to individuals, households, and companies, including fixed and mobile services, both voice and data. Fixed services include traditional fixed telephony, public telephony, Internet access, and television. Mobile services include voice and data under prepaid and postpaid plans. They also include value-added and content services, as well as security and support services, phone network and link interconnection with submarine capacities.

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

The main activity of the subsidiaries is the following:

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

Compañía Nacional de Fuerza y Luz, S.A. (hereinafter, "CNFL") is a corporation created through Law number 21 of April 8, 1941, and its main activity is the distribution of electric energy

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in the metropolitan area of San José and some cantons adjacent to the provinces of Alajuela, Heredia and Cartago. The Company keeps an issue of debt securities in compliance with the regulations of the National Financial System Oversight Board (CONASSIF) and the General Superintendence of Securities (SUGEVAL).

- *Radiográfica Costarricense, S.A.*

Radiográfica Costarricense, S.A. (hereinafter RACSA) is a mixed corporation established on July 27, 1964. RACSA's main objectives are the development of telecom services in Costa Rica, national connectivity and the Internet, international connectivity for data and video transmission, information services, data center, and others.

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

Compañía Radiográfica Internacional Costarricense, S.A. (hereinafter CRICSA) was organized through Law 47 of July 25, 1921 and its main objective is the operation of the concession relating to wireless communication. CRICSA does not currently have any officers or employees because Grupo ICE provides its accounting and administrative service.

- *Cable Visión de Costa Rica S.A.*

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

- *Gestión de Cobro Grupo ICE, S.A.*

Gestion de Cobro Grupo ICE, S.A. was organized through board of directors' agreement No. 6198 dated October 31, 2016; it began operations in October 2017. Its main activity is providing ICE and its entities administrative collection and legal collection management services in connection with balances receivable from commercial activities.

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

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Composition of capital

According to Article 16 of the *Law Organizing the Entity,* ICE's capital comprises the following:

- National revenue that the law allocates and earmarks for ICE
- Fees that the State acquired from the Municipality of San Jose under the Local Streetcar Agreement
- Any other government-owned asset transferred to ICE
- The country's water resources that have been or will be declared national reserves and any retained earnings resulting therefrom.

Nota 2. Basis of Accounting

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

The accounting bases of the subsidiaries are the International Financial Reporting Standards (IFRS); therefore, and with the purpose of preparing the consolidated financial statements, the accounting bases of the subsidiaries are aligned with the parent company's accounting bases.

Management of Grupo ICE authorized the issue of the consolidated financial statements and notes thereto on June 25, 2018.

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Nota 3. Basis of Measurement

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

Items	**Measurement basis**
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value with changes in results	Fair value
Available-for-sale financial assets	Fair value
Inventories (mobile terminals)	Net realization value
Liability financial instruments	Amortized cost

Nota 4. Functional and Presentation Currency

The consolidated financial statements and the notes thereto are expressed in Costa Rican colones (¢), the monetary unit of the Republic of Costa Rica and its functional currency.

All financial figures contained herein are presented in millions of colones, and they have been rounded to the closest unit, except as otherwise indicated.

Nota 5. Use of Estimates and Judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. The effect of changes in estimates is made according to note 7 (b) (iii).

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(i) *Judgments*

Information about judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 8 (iii) - Cost of loans
- Note 34 – Institutional Financial Risk Management

(ii) *Assumptions and Uncertainties in Estimates*

The information on assumptions and estimation uncertainties that have a material risk of resulting in a material adjustment to the asset and liabilities books for the period ending September 30, 2018 is included in the following notes:

- Note 14- Allowance for obsolete inventory
- Notes 11 and 17 -Allowance for doubtful accounts
- Note 21- Measurement of defined benefit obligations: key actuarial assumptions
- Note 35 – Recognition and measurement of provisions and contingencies – key assumptions related to likelihood and magnitude of an outflow of financial resources.

(iii) *Measurement of Fair Values*

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

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

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

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

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Note 34 – "Management of institutional financial risk" includes additional information on the assumptions made when measuring the reasonable values.

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

Nota 6. <u>Changes in Policies</u>

Through Decree No. 35616-H dated December 2, 2009, the Ministry of Finance established that public entities must adopt *International Financial Reporting Standards* (IFRSs) starting January 1, 2014. Subsequently, through Decree No. 39665-H dated March 8, 2016, the Ministry of Finance established that institutions with no accounting procedures based on IFRSs should take the corresponding steps to prepare, approve, and adjust their IT systems to meet the conditions to apply IFRSs starting January 1, 2017. Notwithstanding the foregoing, on August 3, 2016, through document DM-1559-2016, the Ministry of Finance informed ICE of the issue of a guideline that authorizing the General Directorate of National Accounting to establish guidelines for entities that have not completed the adoption of the new accounting treatments. To do so, such entities must commit to implementing action plans, with terms not extending beyond 2022. For this reason, through communication DCN-1609-2016 of November 15, 2016, the General Directorate of National Accounting of the Ministry of Finance authorized ICE to issue its first financial statements according to IFRS for the year ended December 31, 2023.

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Through Executive Decree No 41039-H, published in La Gaceta Nº92 in May 2018, a new deadline is established for closing the gaps existing with the IFRS in the Costa Rican Public Sector. Such decree indicates the following:

Article 3 – Maximum deadline for closing gaps. The institutions that show gaps related to the current accounting practices and those required according to the international standard will have until January 1, 2020 to implement such standard. The National Accounting Directorate will supervise, as the Lead Agency of the Accounting Sub-system, compliance with the closing of gaps, and it will determine whatever corresponds in those cases where a waiver for noncompliance is being submitted.

As per the Decree mentioned above, which establishes that the maximum date for closing gaps regarding the implementation of the International Accounting Standard will be October 1, 2020, the Costa Rican Electricity Institute will close, during the 2018 and 2019 period, the existing gaps related to:

a) Revenue recognition, especially for the agreements with multiple components and additional aspects that are required by the new IFRS 15 – Revenue from Contracts with Customers.

b) Financial instruments related to the recognition and measurement of purchase and service orders and additional matters required by the new IFRS 9 – Financial Instruments.

Along with the new deadline for the implementation of the international standard, according to Decree No 41039-H, the Office of the District Attorney, through communication PGR-C-095-2018, dated May 2018, issues a letter as response to ICE's consultation on the retroactive effect of the standards, which concludes, among others, the following:

"If during the course of the contracts that were formalized under other regulations –which implies specific legal/economic consequences-, such conditions cannot be modified on a way that results negative or damaging for the institution based on the implementation of the IFRS, as long as these contracts had been negotiated taking into account the standards that were applicable at such moment, as well as the classification, effects, and economic and financial consequences that they would have on the institution's financial position."

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“Ergo, if such accounting criteria were to be taken into account –with its consequences- by the entity at the time of negotiating certain contracts, it is not acceptable to cause damage to it –or to third parties- as a result of new accounting standards. These contracts, with its legal, economic, financial, accounting, and material consequences, constitute consolidated juridical situations that cannot be negatively altered in virtue of the subsequent regulations that did not exist at the moment of its execution, in virtue of the provisions set forth in article 34 of the Political Constitution.”

Therefore, in the case of the Leases, BOTs, and Trusts existing as of this date, in accordance with the binding criterion of the Attorney General Office, the accounting regulations in force at the moment of signing the contracts will remain in effect, until their termination. The new contracts related to these topics, negotiated as of January 1, 2020 will be recorded in accordance with the International Financial Reporting Standards (IFRS), based on the date established by the National Accounting of the Ministry of Financing, through the previously mentioned decree.

Starting in 2016, ICE began to gradually adopt the IFRSs, by incorporating in its accounting policies the changes required to gradually adjust those policies to the technical requirements of those accounting standards.

Such adoption is documented through the issue of accounting criteria that include technical requirements indicated by the IFRSs that are being incorporated into ICE's accounting policies, with the stewardship and binding criteria of the Accounting Budget Division, with the approval of Corporate Services Management, and in accordance with the action plan accepted by the General Directorate of National Accounting of the Ministry of Finance (see note 7). In this gradual adoption process, ICE considers the study performed by an external advisor, which determined the gaps between the accounting basis currently used by ICE and IFRSs in effect as of 2015. In this way, during 2016 and 2017, different IFRS were implemented. As of the date of these financial statements, the IFRS that was considered in this implementation process corresponded to IAS 39 Financial Instruments – Recognition and Measurement, in relation to:

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(In millions of colones)

Asset and Liability Recognition regarding the Import Purchase Orders:

The implementation of this policy has the objective of defining the moment of recognition and measurement of assets and liabilities related to the issue of import purchase orders, according to the provisions set forth in the International Financial Reporting Standards, specifically IAS 39 – Financial Instruments – Recognition and Measurement.

In accordance with the aforementioned, the recognition of liabilities will take place when a commitment has been made to buy goods or services, and when the rights and benefits of the marketed products have been transferred, or at least until the moment in which some of the parties have fulfilled their obligations, according to the International Commercial Terms (INCOTERMS) and the contracts.

The standards implemented by ICE are detailed as follows:

Reference Standard	Name of the Standard	Effective as of
IAS 8	Accounting Policies, Changes Accounting Estimates and Errors	2016
IAS 16	Property, Plant and Equipment	2016
IAS 19	Employee Benefits	2016
IAS 24	Related Party Disclosures	2016
IAS 36	Impairment of Assets	2016
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	2016
IAS 39	Financial Instruments: Recognition and Measurement	2016
IFRS 8	Operating Segments	2016
IAS 1	Presentation of Financial Statements	2017
IAS 2	Inventories	2017

(Continues)

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

IAS 7	Statement of cash flows	2017
IAS 10	Events after the Reporting Period	2017
IAS 18	Revenue	2017
IAS 23	Borrowing costs	2017
IAS 28	Investments in Associates and Joint Ventures (except trusts)	2017
IAS 38	Intangible Assets	2017
IFRS 3	Business Combinations	2017
IFRS 7	Financial Instruments: Disclosures	2017
IFRS 11	Joint Agreements (except trusts)	2017
IFRS 13	Fair Value Measurements	2017

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

(Continues)

Nota 7. Summary of Significant Accounting Policies

The accounting policies set out below have been applied to the periods presented in these consolidated financial statements. As indicated in note 6 – Changes in Policies, for 2018, changes were made to some accounting policies, retrospectively recording the effects of those changes as appropriate. The policies implemented as of this date, and detailed in the audited financial statements for FY2017, have been consistently applied in the years presented in these interim consolidated financial statements and for all the entities that compose Grupo ICE, corresponding to the quarter ended as of September 30, 2018.

Annual Accounting Policies not Applied for Interim Periods

Grupo ICE's accounting policies contain a series of guidelines that govern the Group's accounting practices and that consider the accounting treatment of an accounting period, which in the case of Grupo ICE's corresponds to a calendar year from January 1 to December 31.

According to practice, the mandatory accounting policy for the annual period is due to the complexity of the implicit monthly or quarterly processing for the calculation or restatement of values.

Below is a list of accounting treatments of interim periods which differ from the annual treatment conducted as of the closing date of each accounting period.

(i) Allowance for Valuation of Stock at Warehouses:

The necessary activities to review the allowance involve all offices of Grupo ICE since inventories are safeguarded in the entire country, and additionally, they take place every year. Thus, based on practical reasons, allowance is reviewed or modified only at yearend.

Some notes to the consolidated financial statements present, for practical purposes, detailed information per subsidiary.

Certain comparative amounts in the separate balance sheet have been reclassified as a result of the correction of errors, changes in estimates, and changes in accounting policies.

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Consolidation Bases

(i) *Business Combinations*

Grupo ICE's business combinations are accounted for when the acquirer (Grupo ICE or another entity of Grupo ICE) obtains control of one or more existing businesses.

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

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

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

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

(Continues)

(In millions of colones)

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

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

(ii) *Subsidiaries*

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

		Ownership interest as of	
		As of September 30	**As of December 31**
Subsidiaries	**Country**	**2018**	**2017**
Compañía Nacional de Fuerza y Luz, S.A. (CNFL)	Costa Rica	98,6%	98,6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100%	100%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100%	100%
Cable Visión de Costa Rica S.A. (CVCRSA)	Costa Rica	100%	100%
Gestión de Cobro Grupo ICE S.A.	Costa Rica	100%	100%

These subsidiaries are companies controlled by ICE (parent company). The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control starts until the date that control ceases. When necessary, the accounting policies of the subsidiaries have been revised to align them with the accounting policies adopted by ICE, including the corresponding accounting adjustments.

(Continues)

(iii) *Transactions Eliminated in the Consolidation Process*

Intra-group balances and transactions, and any unrealized income or expenses arising from intra-group (Grupo ICE) transactions, are eliminated in preparing the consolidated financial statements.

(iv) *Investments in Associates and Joint Ventures*

Grupo ICE recognizes as investments in associates those investments where it has significant influence but not control, when it holds, directly or indirectly through one of its subsidiaries, 20% or more of the voting power of the investee, unless it can be clearly demonstrated that such influence does not exist.

When part of a joint venture (joint ventures or joint operation), Grupo ICE will assess whether the arrangement grants joint control of the arrangement to all parties or a group of parties. Joint control exists when the parties sharing control must act jointly to direct the activities that significantly affect the returns of the arrangement (i.e. the relevant activities).

When all parties or a group of parties are determined to control the arrangement collectively, joint control exists provided that decisions about the relevant activities require the unanimous consent of the parties sharing control.

Grupo ICE records investments classified as investments in associates and joint ventures, under the equity method. The initial recognition of the investment in an associate or joint venture is recognized at cost, and the carrying amount is increased or decreased (as a consolidation adjustment in Grupo ICE's financial statements) to recognize Grupo ICE's share in the investee's profit or loss after the date of acquisition. Grupo ICE's share in the investee’s profit or loss is recognized in Grupo ICE's profit or loss for the period. Distributions received from the investee reduce the carrying amount of the investment.

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

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

(a) General Recording Policies

(i) Basic Principles

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

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

Grupo ICE's accounting period goes from January 1 to December 31 of each year.
Items are recognized in the consolidated financial statements if they meet the following criteria:

- It is likely that any economic benefit associated with the transaction will flow to or from Grupo ICE.

- The cost or value of the transaction can be reliably measured.

(i) Foreign Currency Transactions

During the period, all of Grupo ICE's foreign currency transactions are translated into the functional currency at the exchange rate for the Costa Rican colón with respect to the U.S. dollar exchange rate in effect as of the interim period, established by the Central Bank of Costa Rica for operations with the non-banking public sector.

(Continues)

(In millions of colones)

Nota 8. Property, Plant, and Equipment, net

As of September 30, 2018 and December 31, 2017, property, plant, and equipment are broken down as follows, for the general asset categories:

		As of September 30, 2018	As of December 31, 2017
Cost:			
Operating assets	¢	7,234,205	7,219,976
Operating assets and other operating assets under finance leases		844,834	844,271
Other operating assets		401,672	404,624
Total operating assets - cost		**8,480,711**	**8,468,871**
Depreciation - Cost:			
Operating assets		3,656,821	3,667,688
Operating assets and other operating assets under finance leases		31,969	21,092
Other operating assets		301,774	294,572
Total depreciation of operating assets		**3,990,564**	**3,983,352**
Total accumulated depreciation of operating assets - cost		**4,490,148**	**4,485,519**
Other assets			
Construction work in progress		520,978	393,116
Inventory for investment projects		103,874	134,898
Total other assets		**624,852**	**528,014**
Total property, plant and equipment	¢	**5,114,999**	**5,013,533**

(Continues)

(In millions of colones)

(i) Cost

Operating assets are broken down as follows:

Cost		As of December 31, 2016	Additions and capitalizations	Disposals	Transfers, alignment adjustments	As of December 31, 2017	Additions and capitalizations	Disposals	Transfers, alignment adjustments	As of September 30, 2018
Land	¢	161,291	664	(99)	467	162,323	7,474	(124)	870	170,542
Buldings		338,905	32,665	(63)	(3,841)	367,666	185	(134)	11,905	379,622
Hydraulic power generation		2,359,727	17,457	(158)	1,324	2,378,350	11	-	(15,408)	2,362,953
Thermal power generation		168,369	463	(4)	(31)	168,797	87	-	-	168,884
Geothermal power generation		527,851	(8,952)	-	(332)	518,567	-	-	-	518,567
Wind power generation		12,480	-	(695)	-	11,785	-	-	-	11,785
Solar power generation		12,115	283	(29)	-	12,369	-	(0)	-	12,369
Substations		430,119	26,976	(5,287)	-	451,808	0	(569)	(17,427)	433,812
Transmission lines		329,945	25,753	(7,045)	-	348,653	-	-	(6,752)	341,901
Distribution circuits		809,147	32,073	(8,789)	10	832,441	980	(58)	80,710	914,073
Street lighting		43,137	2,806	(329)	(12)	45,602	414	(617)	(19,128)	26,271
Communication, control and infrastructure equipment		241,593	41,281	(3,586)	104	279,392	1,958	(2,751)	(28,365)	250,233
Transport		685,393	35,927	(4,783)	340	716,877	181	(0)	-	717,058
Access (4)		407,388	75,848	(763)	2,911	485,384	-	-	-	485,384
Civil and electromechanical		186,299	16,642	(4)	17	202,954	-	-	-	202,954
Platforms		220,895	22,702	(6,564)	(25)	237,008	1,011	(222)	-	237,797
Subtotal operating assets		**6,934,654**	**322,588**	**(38,198)**	**932**	**7,219,976**	**12,301**	**(4,477)**	**6,405**	**7,234,205**
Other operating assets under finance leases: (5)										
Land		7,654	-	(50)	-	7,604	11	-	-	7,615
Buildings		29,940	-	-	-	29,940	-	-	-	29,940
Hydraulic power generation		795,298	547	-	452	796,297	497	-	-	796,794
Transport		-	1,961	-	(1,961)	-	-	-	-	-
Access		9,887	1,379	-	(3,171)	8,095	-	-	-	8,095
Furniture and equipment		2,170	86	(1)	80	2,335	55	-	-	2,390
Subtotal operating assets and assets under finance leases		**844,949**	**3,973**	**(51)**	**(4,600)**	**844,271**	**563**	**-**	**-**	**844,834**
Other operating assets		**382,917**	**37,192**	**(16,143)**	**658**	**404,624**	**4,878**	**(7,830)**	**-**	**401,672**
Total	¢	**8,162,520**	**363,753**	**(54,392)**	**(3,010)**	**8,468,871**	**17,741**	**(12,307)**	**6,405**	**8,480,711**

(Continues)

The account "Operating assets under lease agreements" corresponds to the value of productive assets under agreements classified as finance leases. As of September 30, 2018, lease agreements are as follows:

Lease Agreement for the Reventazón Hydroelectric Power Project (hydraulic generation):

Agreement entered into between UNO P.H Reventazón Trust as the lessor and ICE as the lessee. The term of the lease is for 20 years and semiannual payments are based on the amount paid by the Trust for the debt with the creditor banks of UNO P.H Reventazón Trust.

Such a lease agreement is derived from the terms set forth in trust agreement referred to as "UNO PH Reventazón / ICE / Scotiabank / 2013 Trust Agreement," entered into in May 2013 between ICE and Scotiabank de Costa Rica, in which ICE acts as the trustor and main beneficiary, Banco Scotiabank as trustee, and the individuals identified in each notification for appointment of secondary beneficiaries as such.

The main clauses of this UNO PH Reventazón / ICE / Scotiabank / 2013 Trust Agreement are as follows:

a. Develop, continue the construction, lease, operate, and offer maintenance to the Reventazón Hydroelectric Power Project and subscribe the necessary financing to achieve those goals.

b. Create autonomous and independent equity to secure and guarantee compliance with the Trust’s obligations.

c. Organize the guarantee trust to which the trust equity will be transferred, whereby this trust will act as the trustor, the secured creditors as the beneficiaries, and this trust’s trustee as the trustee. The trustee of the guarantee trust is Banco Scotiabank.

d. Comply with the trust’s obligations established in the transaction documents, including making payments to secured creditors that granted loans or invested in securities for the development, financing, construction, lease, operation, and maintenance of the Reventazón Hydroelectric Power Project.

e. Once (i) the objectives of this trust have been met, (ii) the obligations established in the transaction documents have been fulfilled, and (iii) the trustee receives written authorization from the representative of the secured

(Continues)

creditors; transfer the trust equity to the trustor, who also acts as the main beneficiary.

f. Pursue any other objective or purpose derived from the nature of this trust agreement and the transaction documents that does not infringe good faith in business or violates the relevant legislation.

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

The Trustee shall manage and, if appropriate, make use of the Trust Equity in accordance with purposes and provisions of the agreement and meeting all of the Trust's obligations.

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

Under this Trust, the Reventazón hydroelectric plant was built, which is a joint venture between ICE and the Trust. Upon completion of such works in 2016, ICE included in the account of operating assets under a lease agreement the amount of ¢800,658, accounting for the total value of the construction cost. Such a value includes the cost of the investment directly made by ICE in the amount of ¢340,420 and the investment made by the Trust in the amount of ¢460,418. This last amount of ¢460,207, contributed by the Trust, is the benchmarking figure for the lease agreement. Since the investment made in such a project by the Trust was funded with loans denominated in colones and US dollars, the abovementioned agreed-upon lease fee includes a portion in the local currency and another portion in US dollars. Therefore, the obligation with the Trust and related to the investment made by such entity was broken down in those two currencies.

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Telecom Tower Lease Agreement (Buildings):

On January 29, 2010, Banco de Costa Rica (BCR) and ICE entered into an agreement referred to as “ICE-BCR Real Property Securitization Banco de Costa Rica acting as a trustee, agreed to obtain the financial resources to acquire the real property known as Centro Empresarial La Sabana (building). Such financing would be obtained by the Trust by selling securities known as “Securities/Certificates of ICE-BCR Real Property Securitization Trust.”.

The purposes 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, thereby giving rise to the irrevocable lease agreement with an option to buy such property, known as Centro Empresarial La Sabana, through which the aforementioned Trust leases to ICE the aforementioned real property for a 12-year term, at the end of which ICE will be able to exercise the purchase option with a monthly lease fee determined based on the variables set forth in the aforementioned lease agreement.

With the amount received by the Trust for the lease of the property, the loan and yields from the securities placed in the stock market will be paid, as well as those private securities issued, and national and international bank loans.*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 comply with the cost of the design, construction, and maintenance of the New Generation Access Network (RANGE), including the works related to the installation of equipment, channeling of civil and electro-mechanical 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 as of May 2016, with monthly payments established in accordance with the formula set forth in addendum to the aforementioned lease agreement.

(Continues)

Notes to the Consolidated Financial Statements

(In millions of colones)

(ii) Accumulated Depreciation

Accumulated depreciation of properties, plant, and equipment is detailed as follows:

Depreciation - cost		As of December 31, 2016	Depreciation for the year	Disposals	Transfers, alignment adjustments	As of December 31, 2017	Depreciation for the year	Disposals	Transfers, alignment adjustments	As of September 30, 2018
Buldings	¢	133,408	6,974	(13)	(280)	140,089	4,868	(33)	(14,449)	130,475
Hydraulic power generation		1,030,300	39,858	-	2,658	1,072,816	26,028	-	(36,418)	1,062,426
Thermal power generation		88,121	3,272	(3)	(32)	91,358	2,573	-	-	93,931
Geothermal power generation		257,171	27,140	-	(5)	284,306	20,898	-	-	305,204
Wind power generation		9,399	2,121	(622)	-	10,898	34	-	-	10,932
Solar power generation		4,881	956	(28)	-	5,809	498	(0)	-	6,307
Substations		203,094	23,349	(2,241)	(165)	224,037	11,218	(463)	(10,698)	224,094
Transmission lines		110,858	8,554	(1,386)	(18)	118,008	6,817	-	(2,073)	122,752
Distribution circuits		425,132	19,425	(6,953)	(1,675)	435,929	13,646	(20)	(89,424)	360,131
Street lighting		20,590	2,382	(284)	(163)	22,525	1,131	(189)	(9,450)	14,017
Communication, control and infrastructure equipment		101,017	7,185	(3,337)	(301)	104,564	5,905	(2,330)	(22,434)	85,706
Transport		450,221	30,135	(2,854)	(5,027)	472,475	21,117	97	-	493,690
Access (4)		318,351	37,248	(194)	624	356,029	34,816	-	-	390,845
Civil and electromechanical		158,969	13,135	(1)	(5)	172,098	11,135	-	-	183,233
Platforms		135,757	26,587	(5,749)	152	156,747	16,330	2	-	173,079
Subtotal operating assets		**3,447,269**	**248,321**	**(23,665)**	**(4,237)**	**3,667,688**	**177,014**	**(2,935)**	**(184,946)**	**3,656,821**
Other operating assets under finance leases: (5)										
Buildings		2,786	601	-	-	3,387	454		-	3,841
Hydraulic power generation		976	12,869	-	(1,037)	12,808	8,883	-	-	21,691
Transport		-	19	-	(19)	-	-	-	-	-
Access		1,104	2,257	-	(649)	2,712	1,337	-	-	4,049
Furniture and equipment		1,909	276	-	-	2,185	203	-	-	2,388
Subtotal operating assets and assets under finance leases		**6,775**	**16,022**	**-**	**(1,705)**	**21,092**	**10,877**	**-**	**-**	**31,969**
Other operating assets		**287,897**	**20,795**	**12**	**(14,132)**	**294,572**	**14,924**	**(7,624)**	**(98)**	**301,774**
Total	¢	**3,741,941**	**285,138**	**(23,653)**	**(20,074)**	**3,983,352**	**202,816**	**(10,560)**	**(185,044)**	**3,990,564**

(Continues)

On January 1, 2016, Grupo ICE, and as a result of adopting the adjusted cost term, in order to disclose the value of its operating assets, regrouped, in a single item, the balances of the accumulated depreciation on the historical costs and the accumulated depreciation on the revaluation.

Likewise, and after adopting the component accounting, the useful life of the elements of the operating assets were reviewed considering the disaggregation by components.

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

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

(In millions of colones)

(iii) *Works in Process*

The following chart shows a detail of other assets- construction works as of September 30, 2018 and December 31, 2017:

Project		As of September 30, 2018	As of December 31, 2017
Las Pailas Geothermal Project		158,269	140,737
Diquis Hydroelectric Project		88,174	87,351
Proyetos Geothermal Borinquen I		33,734	29,681
South Ring Transmission		20,989	19,981
Acquisition of assets		19,973	16,612
GL-1800 MHZ (phases)		15,002	8,588
Wireless infrastructure		10,683	10,488
Installation of business services		10,188	5
Strengthening the Distribution System		9,094	6,634
Improvements in the network		7,531	4,541
Continuous improvement quality		7,121	3,013
Expansion of 3G Access		6,592	1,710
ICE-MEP (PHASE)		6,342	604
Technical services for projects		6,256	2,486
ICT Transformation - Heredia		5,406	3,446
Transmission Reinforcement		5,059	5,030
Transmission Lines Rio Claro Paso Canoas		5,027	2,350
Fouth Cliff Project		4,861	4,861
Marketing Priorities		4,543	869
Tejona Substation		4,516	3,097
IP Ring Ring Network Modernization		4,264	2,782
Intervention Plan Area		4,210	822
Institutional real estate		4,115	1,639
Expansion and renovation		3,918	-
Deviation La Carpio		3,914	2,388
Fonatel projects		3,792	498
Santa Rita Substation		3,666	2,752
Minor investments (Transmission)		3,464	2,568
Network development		3,221	2,074
Basic Engineering Studies		3,014	2,666
Conformation and Rehabilitation of the structure		3,004	1,814
Network access New Generation Range		2,727	120
Integration IMS Platform		2,680	2,619
Tarbaca Transmission Line - El Este		2,111	1,642
Street lighting		1,880	1,196
Evolution of Transport Network		1,839	1,602
Roads (Conavi-Municipalities)		1,759	314
Business services		1,688	876
Substation anonos		1,440	428
Technical support colima		1,407	1,278
Trunk radio system		1,349	360
Internal customer (ICE-ICE Group)		1,157	747
Real estate developments		1,020	131
San Isidro Substation		1,018	598
Integrated care system		893	592
Other projects		29,965	10,074
Less: Elimination of institutional services **		(1,899)	(1,547)
Total	**¢**	**520,978**	**393,116**

** Internal consumption for telephone and electric services incurred by the different areas of the institution.

(Continues)

Below is a description of the nature and main works in progress during the period:

(1) Las Pailas II Geothermal Power Plant

The balance corresponds to the cost of several construction works that have been taking place in the construction of a new geothermal power plant with a power output of 55 MW. The purpose of this project, which is expected to begin operations in 2019, is to supplement the power output of the Las Pailas I Power Plant and increase the geothermal power output. The project, which is considered in ICE's electricity generation expansion plan, is located in Guanacaste and is being built on the foothills of Rinc6n de la Vieja Volcano. The estimated investment is US$325 million.

(2) El Diquís Hydroelectric Project (PH Diquis):

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

According to the above, Grupo ICE immediately suspends El Diquís Hydroelectric Project since the last Expansion Plan of 2018 Generation revealed that, in the studied planning horizon and with the available demand projections, this Project is not part of minimum cost optimal plan any longer.

According to good accounting practices, the pre-investment costs will be transferred to the income statement as an expense. The suspension of this hydroelectric Project does not affect the payment capacity of Grupo ICE to face obligations with bond holders since it is not a cash disbursement this year.

This project corresponds to works in planning and designing the execution of an investment for ¢88.174 in 2018 and (¢87.351 in 2017).

(3) Borinquen Geothermal Project

This project includes the costs incurred in the development of the geothermal project known as Borinquen 1, located on the Guanacaste mountain range, on the pacific slope of

(Continues)

Rincon de la Vieja Volcano. It will have an estimated power output of 52 MW, with an estimated cost of US$399 million. The Borinquen 1 project is expected to begin operations in January 2022.

(4) Anillo Sur Transmission Line

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

(5) Acquisition of Assets – Senior Management

An investment of¢19.793 million made in the Financial-Administrative Modernization Program (PMAF), a solution that integrates the redesign, integration, and consolidation of operational and administrative processes of the finance, supply chain, human capital and project management areas, based on the industry's best practices, supported by a platform that includes software, licenses, and infrastructure.

The Program includes redesigning, integrating, and consolidating the operating and administrative processes of finance, supply chain, human capital, and project management. The PMAF program seeks to improve the efficiency and availability of information for ICE's effective decision making, by relying on an integrated system, SAP's Enterprise Resource Planning (ERP). It is expected to be concluded during the first half of 2019.

(Continues)

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

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

Account		As of December 31, 2016	Additions	Capitalizations	Interest and commissions	Warehoused	Allocated to construction work in progress	As of December 31, 2017	Additions	Capitalizations	Interest and commissions	Warehoused	Allocated to construction work in progress	As of September 30, 2018
Construction work in progress	¢	436,450	264,994	(316,889)	10,108	-	-	394,663	128,374	(2,280)	2,379	(258)	-	522,877
Less : ** Elimination of internal consumption of services		(1,639)	92	-	-	-	-	(1,547)	(352)	-	-	-	-	(1,899)
Subtotal construction work in progress		**434,811**	**265,086**	**(316,889)**	**10,108**	**-**	**-**	**393,116**	**128,021**	**(2,280)**	**2,379**	**(258)**	**-**	**520,978**
Inventory for investment projects		169,622	151,693	-	-	(27,305)	(159,112)	134,898	1,755	-	-	49,623	(82,402)	103,874
Total	¢	**604,433**	**416,779**	**(316,889)**	**10,108**	**(27,305)**	**(159,112)**	**528,014**	**129,777**	**(2,280)**	**2,379**	**49,364**	**(82,402)**	**624,852**

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

(Continues)

(In millions of colones)

Nota 9. Intangible Assets

Intangible assets are detailed as follows:

		As of September 30, 2018	As of December 31, 2017
Intangible assets with finite useful lives			
Licenses, systems, and applications (1)	¢	123,940	113,216
Submarine cable IRU (2)		66,392	66,392
Subtotal		**190,332**	**179,608**
Accumulated amortization			
License, systems, and applications		(104,760)	(84,520)
Submarine cable IRU (2)		(38,513)	(35,089)
Accumulated amortization		**(143,273)**	**(119,609)**
Intangible assets with finite useful live, net		**47,058**	**59,999**
Intangible assets with indefinite usefull lives			
Rights of way and easements (3)		29,755	29,266
Plusvalía		2,813	2,813
Intangible assets with indefinite usefull lives, net		**32,568**	**32,079**
Net total	¢	**79,626**	**92,078**

(Continues)

(In millions of colones)

A detail of intangible assets is shown as follows:

		Licenses, systems and applications (1)		Submarine cable IRU (2)		Rights of way and easements (3)		Plusvalía		Total	
		As of September 30, 2018	As of December 31, 2017	As of September 30, 2018	As of December 31, 2017	As of September 30, 2018	As of December 31, 2017	As of September 30, 2018	As of December 31, 2017	As of September 30, 2018	As of December 31, 2017
Cost:											
Opening balance	¢	113,216	106,758	66,392	64,758	29,266	28,742	2,813	2,813	211,687	203,071
Additions		11,370	24,997	-	-	478	541	-	-	11,848	25,538
Transfers		-	27	-	1,634	11	-	-	-	11	1,661
Disposals		(646)	(18,566)	-	-	-	(17)	-	-	(646)	(18,583)
Total cost	¢	**123,940**	**113,216**	**66,392**	**66,392**	**29,755**	**29,266**	**2,813**	**2,813**	**222,899**	**211,687**
Accumulated amortization											
Openning balance	¢	84,520	85,309	35,089	29,713	-	-	-	444	119,609	115,466
Amortization - exoebse		14,784	20,537	3,424	1,136	-	-	-		18,208	21,672
Amortization - Investment		3,852	(5,330)	-	-	-	-	-	-	3,852	(5,330)
Transfers		1,604	1,652	-	4,240	-	-	-	(444)	1,604	5,448
Disposals		-	(17,648)	-	-	-	-	-	-	-	(17,648)
Total amortization		**104,760**	**84,520**	**38,513**	**35,089**	**-**	**-**	**-**	**-**	**143,273**	**119,608**
Net total	¢	**19,180**	**28,696**	**27,879**	**31,303**	**29,755**	**29,266**	**2,813**	**2,813**	**79,626**	**92,078**

Amortization Method

For calculating the amortization of licenses, software, and applications, Grupo ICE applies the straight-line method from the date the assets were first used, over a useful life, based on a useful life to be established and reviewed by the technical area.

Regarding Grupo ICE's rights of way and easements, it was determined that there is no defined term over which they generate future benefits; accordingly, they are not amortized.

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

(1) Licenses, software, and applications

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

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

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

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

(2) Submarine Cable Right of Use

As indicated in note 8, the investment made by Grupo ICE in submarine cable (Global Crossing and Arcos) was maintained as part of the asset account "Operating assets – transport". In 2017, after analyzing the nature and characteristics of this investment, it was decided that the best classification, in view of the best accounting practices, is as an intangible asset, since it represents the right of use of optical fiber for data traffic. Thus, in 2017 the amount of that right of use was incorporated into the "Intangible assets" account, including the infrastructure built from sea level to be able to connect this cable to ICE's communication equipment on land. Therefore, it is reclassified to the “operating assets – transportation” account, to “intangible assets”.

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

(Continues)

(In millions of colones)

Nota 10. <u>Equity Investments</u>

Investments are detailed as follows:

Equity investments	As of September 30, 2018	As of December 31, 2017
Joint venture:		
Tecomunica, S.A.-Nicaragua; 500 ordinary shares with a par value of C$101.000 each; 50% ownership interest (1)	1,198	938
Subtotal	**1,198**	**938**
Other investments valued at cost:		
Consorcio Cable Maya (2)	15,085	15,085
Toro III Hydroelectric Project Trust (3)	11,203	11,203
Empresa Propietaria de la Red, S.A. 6,500 shares with a par value of US$1,000 each; 10.36% ownership interest (4)	3,124	3,124
Red Centroamericana de Fibras Ópticas, S.A. 300 ordinary shares with a par value of US$1,000 each; 11.11% ownership interest (5)	143	143
Other	64	193
Subtotal	**29,618**	**29,748**
Total	**30,816**	**30,686**

(1) <u>Tecomunica, S.A. – Nicaragua</u>

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

The first contribution for US$1 million was approved by ICE's Board of Directors in meeting No. 6069 on December 2, 2013. Later on, in session N° 6157 of November 30, 2015, ICE's Board of Directors approved a second contribution for US$1 million.

The extraordinary General Shareholders' Meeting of Tecomunica, S.A. on December 4, 2015, agreed to increase the capital stock from 100 to 1,000 nominative shares amounting to a total of C$101,000,000 (one hundred one million córdobas) equal to US$4 million, at a par value of C$101,000 (one hundred one thousand córdobas, net) each is equal to US$4,000 (four thousand dollars) of which 500 shares are held by ICE (50% interest) for a total of C$50,500,000 (fifty million five hundred thousand córdobas, net) equal to US$2 million.

(Continues)

(In millions of colones)

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

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

	As of September 30, 2018	**As of December 31, 2017**
Percentage ownership interest	50%	50%
Non-current assets	1,674	1,210
Current assets	1,085	924
Non-current liabilities	(54)	(14)
Current liabilities	(309)	(249)
Net assets (100%)	2,396	1,871
Group's share of net assets (50%)	1,198	936
Other adjustments (capitalization of investment - 50%)	-	2
Carrying amount of interest in joint venture	1,198	938

	As of September 30, 2018	**As of September 30, 2017**
Revenue	1,132	1,234
Other income	20	21
Cost of sales	(355)	(740)
Operating expenses	(553)	(440)
Income tax expense	4	-
Profit and total comprehensive income (100%)	239	75
Profit and total comprehensive income (50%)	120	37
Group's share of total comprehensive income	120	37

(Continues)

(2) Cable Maya Consortium

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

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

(3) Toro III Hydroelectric Project Trust

The balance of ¢11,203 corresponds to ICE's investment in the Toro III Project. This investment was made jointly with Junta Administrativa del Servicio Electrico Municipal de Cartago (JASEC, 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 keep an equal share regarding 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 will 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 of the plant while defining a series of responsibilities managed by mutual consent.

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On January 26, 2012, ICE and JASEC entered into an addendum to the aforementioned trust agreement, whereby both entities agree 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 accounts 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, was provided by JASEC. The estimated initial value of the project amounted to US$214 million, which was financed with loans granted by Banco de Costa Rica and Banco Popular de Desarrollo Comunal and by ICE and JASEC in a total amount of US$44 million. Upon the completion of the works, the Trust entered into a lease agreement with ICE and JASEC, under an operating agreement.

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

(4) Empresa Propietaria de la Red, S.A.

Grupo ICE holds an ownership interest in Empresa Propietaria de la Red, S.A. (EPR), which was selected to execute the Sistema de Interconexión Eléctrica de los Países de América Central [Central American Electric Interconnection System] (SIEPAC) 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 shall have an interest in EPR in excess of 15%.

EPR's share capital is comprised of 58,500 ordinary shares of US$1,000 par value each; ICE owns 6,061 shares of US$1,000 (one thousand dollars and no cents) par value and CNFL owns 439 shares of US$1,000 (one thousand dollars and no cents) par value each, respectively, for a total of US$6.5 million equivalent to ¢3,124 (11.11% interest) for Grupo ICE. The shares are valued at cost of acquisition.

(Continues)

(In millions of colones)

(5) Red Centroamericana de Fibras Ópticas, S.A. – Nicaragua

In 2013, Grupo ICE acquired ownership interest in Red Centroamericana de Fibras Ópticas S.A. (REDCA S.A.), which is dedicated to developing, financing, constructing, operating, and commercially exploiting and providing maintenance to telecom services or services related to IT and communications. REDCA's share capital consists of 2,700 of US$1,000 (one thousand dollars and no cents) par value each, and the Group owns 300 shares (11.11% interest), of which 93.24% are owned by ICE and 6.76% by CNFL.

Note 11. Notes and Other Accounts Receivable, net

Notes and other accounts receivable are detailed as follows:

		As of September 30, 2018			As of December 31, 2017 (Restated)*		
		Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**
Notes receivable							
Loans to autonomous entities (1)	¢	2,082	2,193	4,274	2,290	-	2,290
Payment arrangements		619	523	1,142	869	172	172
Other		(446)	-	(446)	-	1,902	1,902
Subtotal notes receivable		**2,255**	**2,716**	**4,970**	**3,159**	**2,074**	**5,233**
Non-trade receivables							
Other receivables		-	26,609	26,609	-	55,812	55,812
Other		-	976	976	-	-	-
Government		-	15,847	15,847	-	9,375	9,375
Employees		-	(17)	(17)	-	257	257
Accrued interest investments		-	3,584	3,584	-	-	-
Subtotal non-trade receivables		**-**	**46,999**	**46,999**	**-**	**65,444**	**65,444**
Transitory accounts		**-**	**6,302**	**6,302**	**-**	**-**	**-**
Allowance for non-trade receivables		-	(1,863)	(1,863)	-	(1,347)	(1,347)
Non-trade receivables, net		**-**	**51,437**	**51,437**	**-**	**64,097**	**64,097**
Fiscal credit and/or retentions		-	**36,900**	**36,900**	-	-	-
Advance payments granted to creditors		-			-	-	-
Other receivables		-	20,828	20,828	-	-	-
Government		-	14,536	14,536	-	-	-
Employees (travel abroad)		-	293	293	-	-	-
Subtotal anticipos otorgados acreedores		**-**	**35,657**	**35,657**	**-**	**-**	**-**
Total notes and other accounts receivable, net	¢	**2,255**	**126,710**	**128,965**	**3,159**	**66,171**	**69,330**

(*) See note 33.

(Continues)

(1) Loan to Autonomous Entities

This account mainly includes the following balances:

a. 911 Emergency System

Through an inter-institutional agreement between ICE and the 911 Emergency System, the "Agreement to Pay Accounts due from the 911 Emergency System to ICE" was entered into on December 21, 2012. In this agreement, the debt was expressly acknowledged and accepted and a "payment arrangement" was formally entered into by the 911 Emergency System to settle such debt.

On November 30, 2015, the 911 Emergency System was established to meet this financial obligation by making 30 semi-annual payments, with the first payment on April 30, 2016 and the last on October 31, 2030. This balance will earn an interest rate equal to the borrowing rate of BCCR in force in the week prior to the payment date.

In Meeting No. 6234 held on September 13, 2017, the board of directors agreed to forgive the debt of the 911 Emergency System, which amounted to ¢5,422. The amount of ¢4,489 was charged to the allowance for doubtful accounts, and the difference was recorded as an expense.

b. Empresa Propietaria de la Red

It corresponds to the loan agreement entered into between ICE and Empresa Propietaria de la Red, S.A. (EPR) to repay loan IDB No. 1908 for a total of US$4,5 million equivalent to ¢2,290 in 2017 (¢2,369 in 2016). The total debt term is 25 years effective as of November 24, 2010, with a 5-year grace period, paid on a semiannual basis, at variable interest rate (as of 2017, equivalent to 3-month LIBOR of 1.36% +funding margin of 0.12% +IDB's lending spread of 0.85%, for a total of 2.33% (2016: 3-month LIBOR of 0.88% + 0.11% funding margin+ 1.15% IDB's lending spread), unsecured.

For non-trade accounts receivable, a transfer adjustment is made, from the Prepaid Expense accounts.

(Continues)

(In millions of colones)

The movement of the allowance for doubtful accounts is as follows:

		As of December 31, 2016	Used during the year	Allowance expense	As of December 31, 2017	Used during the year	Allowance expense	As of September 30, 2018
Allowance for non-trade receivables	¢	7,186	(5,840)	1	1,347	(441)	957	1,863

Nota 12. Investments in Financial Instruments

Investments in financial instruments mainly correspond to investments in bonds (debt securities) with returns ranging between 5.67% and 10% per annum (2017: between 5.53% and 10.00% per annum in colones and between 4.06% and 5.84% per annum in US dollars). The total value of this asset comprises investments in securities denominated in colones in the amount of ¢55,788 and denominated in US dollars in the amount of ¢70,575 (equivalent to US$121 million) (¢82,359 denominated in colones and ¢28,053 denominated in US dollars, equivalent to US$49 million, in 2017), maturing between October 2019 and April 2028 (January 2018 and April 2028 in 2017).

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Investments in financial instruments:			
Government (bond)	¢	86,417	48,096
Banco Popular y de Desarrollo Comunal (bond)		24,609	19,878
Banco Central de Costa Rica (bond)		6,870	14,469
Banco Nacional de Costa Rica (bond)		-	9,725
Investment costs		-	1,568
Other		8,466	16,675
Total	**¢**	**126,363**	**110,412**

(*) See note 33.

(Continues)

(In millions of colones)

Nota 13. Guarantee and Savings Fund (Restricted Fund)

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

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

		As of September 30, 2018	As of December 31, 2017
Contribution to the Supplemental Pension System	¢	134,584	132,700
Contribution to the Guarantee and Savings Fund System		86,196	88,356
Total	¢	**220,780**	**221,056**

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

(Continues)

(In millions of colones)

Nota 14. <u>Inventories</u>

Inventories are detailed as follows:

		As of September 30, 2018	As of December 31, 2017
Operating inventory	¢	107,650	97,735
Materials in transit for operation		776	25,055
Materials and equipment held in custody		24,198	4,223
Manufactoring processes for the operation		-	-
Subtotal		**132,624**	**127,013**
Allowance for valuation of inventory		(29,467)	(29,974)
Inventory, net	**¢**	**103,157**	**97,039**

The amount of inventories recognized as expenses during 2018 is ¢23.168 (¢24.812 of 2017).

The movement of the allowance for valuation of inventories is shown as follows.

		As of December 31,					As of September 30,			
		2016 (Restated)*	Used during the year	Allowance expense	Net realizable value	2017 (Restated)*	Used during the year	Allowance expense	Net realizable value	2018
Allowance for valuation of inventory	¢	34,591	(12,742)	3,742	4,383	29,974	(1,479)	971	1	29,467
Total	**¢**	**34,591**	**(12,742)**	**3,742**	**4,383**	**29,974**	**(1,479)**	**971**	**1**	**29,467**

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

(Continues)

(In millions of colones)

Nota 15. Short-Term Investments, net

As of September 30, 2018, Grupo ICE has held-to-maturity investments (time certificates of deposit, zero-coupon Central Bank bonds) amounting to ¢5,544 and denominated in US dollars (¢2.694 in 2017, in dollars) and available for sale (certificates of time deposit, monetary stabilization bonds, commercial paper, and mortgage participation certificates) for ¢54.619 (¢51.812 in 2017), out of which ¢47.293 are in colones and ¢7.326 are in US dollars (¢45.821 in colones and ¢5.991 in US dollars in 2017), with interest rates ranging between 4,42% and 9,9% per annum (1,30% and 8,95% per annum in 2017) and maturity terms ranging between 1 and 12 months (same for 2017).

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Held-to-maturity investments	¢	5,544	2,694
Available-for-sale investments		54,619	51,812
Valuation of investments		-	(376)
Temporary investments, net	**¢**	**60,163**	**54,130**

(*) See notes 33.

Nota 16. Restricted Use Funds

Funds of a restricted use are detailed as following:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Guarantees received fron third parties:			
In U.S. dollars	¢	1,385	829
In colones		466	472
Subtotal ICE	**¢**	**1,851**	**1,301**

(*) See notes 33.

(Continues)

(In millions of colones)

Nota 17. Trade Accounts Receivable, Net

Trade accounts receivable are detailed as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Other receivables	¢	168,756	156,884
Other		5,667	-
Government		20,725	8,599
Associates		(22)	-
Private banking entities		28	-
Subtotal trade receivables		**195,153**	**165,483**
Allowance for trade receivables		(58,864)	(58,359)
Trade receivables, net	**¢**	**136,288**	**107,124**

(*) See note 33.

The movement of the allowance for doubtful accounts is detailed as follows:

		As of December 31, 2016	Used during the year	Allowance expense	As of December 31, 2017	Used during the year	Allowance expense	As of September 30, 2018
Allowance for doubtful accounts	¢	55,336	(4,228)	7,251	58,359	(2,637)	3,143	58,864

(Continues)

(In millions of colones)

Nota 18. Prepaid Expenses

Prepaid expenses are detailed as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Intersectoral Letter of Understanding		294	-
Mobile terminals and devices	¢	28,194	31,242
Debt interests		4,911	20,551
Other		907	(5,308)
Total	¢	**34,306**	**46,485**

(*) See note 33.

Nota 19. Cash and Cash Equivalents

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Cash on hand and in banks	¢	251,027	85,461
Temporary investments		72,286	102,959
Total	¢	**323,313**	**188,420**

(*) See note 33.

(1) The important increase in the cash and cash equivalents account specifically corresponds to banks, mainly from performing pending offsetting processes with liabilities, due to the migration ERP system and new transactional flows.

(Continues)

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

A detail of the characteristics of short-term investment is the following:

					As of September 30, 2018		
	Currency	Issuer	Type of financial instrument		Balance	Rate of return	Term in months
Uncommitted:							
Available for sale	Colones	BCR Valores, Puesto de Bolsa S.A.	Repurchase instrument	¢	18,094	6,00% - 7,00%	09 Oct 2018- 18 Oct 2018
		Popular Valores, Puesto de Bolsa S.A.	Repurchase instrument		2,998	6,85% - 7,00%	16 Oct - 2018
		INS Valores, Puesto de Bolsa S.A.	Repurchase instrument		6,325	0,41% - 0,45%	16 Oct 2018- 09 Nov 2018
		Popular Valores, Puesto de Bolsa S.A.	Repurchase instrument		7,793	3,52% - 4,50%	03 Oct 2018- 22 Oct 2018
	Colones	F.I ND INS LIQUI PUBLICO CRC	Investment fund		1,315	4.04%	A la vista
		F.I. ND BACSJ LIQUI CRC	Investment fund		2,629	5.19%	A la vista
		F.I. ND BCR CORTO PLAZO CRC	Investment fund		1,964	4.48%	A la vista
		F.I. ND BCR MIXTO CRC	Investment fund		3,466	4,87% - 5,04%	A la vista
		F.I. ND BN DINERFONDO CRC	Investment fund		308	4,63% - 4,68%	A la vista
		F.I. ND BN SUPERFONDO CRC	Investment fund		4987	4,97% - 5,09%	A la vista
		F.I. ND INS LIQUIDEZ CRC	Investment fund		1,040	5.08%	A la vista
		F.I. ND POPULAR MERC DINE CRC	Investment fund		724	4.80%	A la vista
		F.I. ND PUBLICO SCOTIA CRC	Investment fund		526	4.61%	A la vista
		F.I. ND PUBLICO SCOTIA USD	Investment fund		6	0.20%	A la vista
		Banco de Costa Rica	Certificate of deposit		1,000	3,00% - 3,15%	27 Set 2018- 11 Oct 2018
		Popular Valores, Puesto de Bolsa S.A.	Certificate of deposit		7,110	3,39% - 4,79%	07 Jun 2017- Vista
	US dollars	BICSA	Overnight		7,570	0.20%	dic-2018
		F.I ND INS LIQUIDEZ USD	Investment fund		4	1.74%	A la vista
		F.I. ND BCR LIQUIDEZ USD	Investment fund		3	1,96% - 1,97%	A la vista
		F.I. ND BCR MIXTO USD	Investment fund		1,955	1,99% - 2,08%	A la vista
		F.I. ND BN DINERFONDO CRC	Investment fund		54	2,06% - 2,13%	A la vista
		F.I. ND BN DINERFONDO USD	Investment fund		0	1.48%	A la vista
		F.I. ND BN SUPERFONDO USD	Investment fund		2	1.48%	A la vista
		F.I. ND PUBLICO SCOTIA CRC	Investment fund		3	2.15%	A la vista
		Banco Popular	Investment fund		7	1.57%	A la vista
		BICSA	Investment fund		605	1,79% - 1,90%	25 Jul 2017- Vista
		Banco de Costa Rica	Certificate of deposit		1,167	1.50%	08 Agost 2018- 06 Dic 2018
		Banco Nacional	Certificate of deposit		8		23 Agost 2017- 17 Dic 2018
		Otros	Certificate of deposit		823	0,54% - 3,20%	09 March 2016- 30 Nov 2018
			Certificate of deposit		(201)		
Total				¢	72,286		

(Continues)

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

	Currency	Issuer	Type of financial instrument		As of December 31, 2017 Balance	Face value	Rate of return	Term in months
Uncommitted:								
Available for sale	**Colones**	Banco Popular y de Desarrollo Comunal	Bond	¢	2,400	2,400	6.35%	ene-18
		Banco Lafise	Term certificate of deposit (global bond)		5,000	5,000	7.07%	feb-18
		Government	Zero-coupon Central Bank bond (global bond)		12,476	12,544	.00% - 7.10%	feb-18
		Banco Cathay	Term certificate of deposit (global bond)		6,000	6,000	7.07%	feb-18
		Financiera Desyfin	Term certificate of deposit (global bond)		3,000	3,000	6.82%	feb-18
		Repurchase operations	Repurchase operations		7,351	7,421	.28% - 5.41%	ene-18
		BN Sociedad de Fondos de Inversión, S.A.	Investment fund		16	16	-	Demand
	US dollars	Banco Internacional de Costa Rica	Overnight deposit		33,730	-	0.20%	Demand
		Banco Internacional de Costa Rica	Overnight deposit		2,385	-	0.20%	Demand
Held to maturity	**Colones**	Government	Zero-coupon Central Bank bond (over-the-counter)		4,015	4,021	5.06%	ene-18
		Banco Popular y de Desarrollo Comunal	Investment fund		800	800	3.55%	Demand
		Banco de Costa Rica	Term certificate of deposit		2,000	2,000	6.80%	Nov 17 - Feb 18
		Banco Popular y de Desarrollo Comunal	Investment fund		676	676	2.82%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		600	600	3.39%	Demand
		Banco de Costa Rica	Term certificate of deposit		800	800	4.80%	Nov 17 - Feb 18
		Banco Nacional de Costa Rica	Term certificate of deposit		13	13	6.00%	Mar 16 - Mar 18
	US dollars	Banco Nacional de Costa Rica	Term certificate of deposit		28	28	3.20%	Mar 16 - Mar 18
		Banco Nacional de Costa Rica	Term certificate of deposit		3	3	2.90%	Dec 16 - Feb 18
		Banco Nacional de Costa Rica	Term certificate of deposit		4	4	3.55%	Mar 17 - Mar 18
		Banco Internacional Costa Rica	Term certificate of deposit		850	850	3.50%	Jul 17 - Jan 18
		Banco Popular y de Desarrollo Comunal	Investment fund		283	283	1.85%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		340	340	1.85%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		227	227	1.79%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		283	283	1.91%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		113	113	1.82%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		566	566	1.82%	Demand
		Banco Popular y de Desarrollo Comunal	Investment fund		481	481	1.90%	Demand
Fair value	**Colones**	SAFI Banco Nacional de Costa Rica	I.F. BN SuperFondo colones, non-diversified		4,795	-	.12% - 4.38%	Demand
		SAFI Banco de Costa Rica	I.F. BCR short-term colones, non-diversified		4,833	-	.69% - 3.99%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified		2,089	-	.13% - 3.72%	Demand
		SAFI Banco Popular	I.F. BPDC money market colones, non-diversified		242	-	4.40%	Demand
		SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified		2,305	-	4.20%	Demand
		SAFI Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified		431	-	4.03%	Demand
		SAFI Banco Nacional de Costa Rica	I.F. BN SuperFondo colones, non-diversified		395	-	.12% - 4.38%	Demand
		Banco de Costa Rica	Investment fund		343	-	.69% - 3.99%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity colones, non-diversified		227	-	3.13% - 3.72%	Demand
		Banco Popular	I.F. BPDC money market colones, non-diversified		468	-	4.40%	Demand
		SAFI BAC San José	I.F. BAC San José liquidity colones, non-diversified		272	-	4.17%	Demand
		Scotiabank de Costa Rica	I.F. Scotiabank public colones, non-diversified		85	-	4.32%	Demand
	US dollars	SAFI Banco Nacional de Costa Rica	I.F. BN DinerFondo US dollars, non-diversified		2	-	.23% - 1.62%	Demand
		SAFI Banco de Costa Rica	I.F. BCR liquidity US dollars, non-diversified		1,995	-	.82% - 1.88%	Demand
		SAFI Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified		3	-	.76% - 1.89%	Demand
		Banco Nacional de Costa Rica	I.F. BN SuperFondo US dollars, non-diversified		3	-	.23% - 1.62%	Demand
		Banco de Costa Rica	I.F. BCR liquidity US dollars, non-diversified		13	-	.82% - 1.88%	Demand
		Instituto Nacional de Seguros	I.F. INS public liquidity US dollars, non-diversified		4	-	.76% - 1.89%	Demand
		Scotiabank de Costa Rica	I.F. Scotiabank public US dollars, non-diversified		6	-	1.53%	Demand
Investment costs	**Colones**	Cost of investment transactions	Cost of investment transactions		8	-	-	-
Total				¢	**102,959**			

(Continues)

(In millions of colones)

Nota 20. <u>Financial Debt</u>

A. Debt Securities Payable (Bonds)

Balances of debt securities (bonds) issued by Grupo ICE are the following:

	Currency	Interest rate	Year of maturity	As of September 30, 2018			As of December 31, 2017	
				Non-current	Current	Total	Non-current	Total
Deuda interna:								
Bond issue	¢	Variable between 7,47% and 9,10% and fixed between 11,39% y el 11,45% (2017: variable between 5,95% and 9,10%, and fixed between 11,41% y el 11,45%)	2020-2035	¢ 282,612	-	282,612	262,037	262,037
Bond issue	US$	Fixed between 5,89% and 7,65% (2017: fixed between 5,97% and 7,65%)	2019-2027	307,764	18,851	326,616	318,388	318,388
Deuda externa:								
Bond issue	US$	Fixed between 6,49% and 6,66% (2017: fixed between 6,38% and 6,95%)	2021-2043	582,585	-	582,585	570,490	570,490
Otros:								
Bond issue premiums	¢			-	-	-	5,404	5,404
Bond issue discounts	¢			-	-	-	(5,005)	(5,005)
				¢ **1,172,961**	**18,851**	**1,191,812**	**1,151,314**	**1,151,314**

Debt securities payable (bonds) in dollars corresponds to US$1.557 million. Such obligations are secured with a general guarantee from ICE.

(Continues)

(In millions of colones)

B. Notes Payable

Carrying amounts of notes payable are as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Internal debt:			
In colones	¢	171,317	176,871
In US dollars		46,078	47,397
Foreign debt:			
In colones		107,956	82,530
In US dollars		528,925	587,327
In yen		103,142	89,565
		957,418	**983,691**
Non-current		869,932	883,161
Current		87,486	100,530
	¢	**957,418**	**983,691**

(*) See notes 33.

A detail of notes payable with creditors is the following:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Internal debt:			
State-owned banks	¢	212,856	217,580
Private banks		4,539	6,688
Foreign debt:			
Private banks		732,344	746,823
Other creditors		7,680	12,599
	¢	**957,418**	**983,691**

(*) See notes 33.

Notes payable in dollars correspond to US$986 million, and in Japanese yens, to ¥20.186 million.

(Continues)

(In millions of colones)

Total non-current notes payable amount to ¢869.232 (¢883.161 in 2017), of which, for 2018, the sum of ¢827.849 corresponds to the electricity segment, and ¢42.083 to the telecom sector. The total of current notes payable amounts to the sum of ¢87.486 (¢100.530 in 2017), and it consists, for 2018, of ¢70.859 in the electricity segment, and ¢16.627, in the telecom sector.

Financial cost of those notes payable, as well as maturity date, is the following:

General characteristics of the debt (in US dollars, yen, and colones, as indicated)			
	Interest rate	**Currency**	**Term**
Internal debt	Variable between 2,25% and 9,70% and Fixed 10,50% (2017: variable between 2,05% and 10,50%,).	¢	Maturing between August 31, 2025 and October 23, 2045
	Fixed 5,45% (2017: variable 5,81%).	US$	Maturing July 23, 2018
Foreign debt	Variable between 2,25% and 6,50% and Fixed between 2,05% and 6,90% (2017: variable between 2,25% and 6,40% fixed between 2,95% and 5,60%).	US$	Maturing between July 23, 2018 and September 15, 2040
	Fixed between 0,60% and 2,20% (for both years).	JPY	Maturing between April 20, 2026 and August 20, 2054

Total notes payable for ¢957.418 (¢983.691 in 2017) includes loans for the sum of ¢703.747 with a general ICE guarantee and ¢253.671 owed by the Government.

Normally, loan agreements establish a series of commitments on environmental, legal, financial, operational and business matters, among others, that the debtor should take care of, and that are usually known as “Covenants.” In the particular case of ICE, some of the executed contracts to date include “Positive covenants” and “Negative covenants,” which establish commitments ICE unavoidably must 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.

(Continues)

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 noncompliance of the obligations, payment and/or any other credit terms and conditions, and/or the credits ICE maintains in force with other creditors, constitute causes of acceleration of the credit for which the "Cross Default" clause was established, and for all the credits in force from the same 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 priority on payment right, at least equivalent (pari passu) to any other obligations, current or future, arising from any ICE´s debt (different from any preferred debt as mandated by law).

In addition, 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 that any of its subsidiaries does, 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 dispose otherwise, nor will it allow that any subsidiaries sell, lease, transfer or dispose otherwise of assets, nor will it grant any option or any other right to buy, lease or otherwise acquire assets, except by (1) inventory sales in the ordinary course of business, (2) a transaction authorized by the Bank, and (3) sales of assets for its fair value for a total amount of not more than 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, directly or indirectly derived, from the works built with financing obtained from the entities shown on the previous table.

(Continues)

d) It will not create or accept the existence, nor will it allow that any subsidiaries create or accept any encumbrance regarding any of its property, owned by ICE now or subsequently acquired, 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 acquires insurance with responsible or reputable insurance associations or companies, in the amounts and with the risk coverage usually taken by the companies in similar businesses, and that have similar properties in the same general areas in which the Borrower or such subsidiary operates.

f) It will comply and make that each of its subsidiaries comply with, substantially, 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 September 30, 2018, quarterly compliance financial covenants regarding debt agreements comply with the established limits, except for the following cases that have the respective waivers.

(Continues)

(In millions of colones)

C. Financial Lease Obligations

As of September 30, 2018 and as of December 31, 2017, balances from financial lease obligations are the following:

	Interest rate	Year of maturity		As of September 30, 2018			As of December 31, 2017		
				Non-current	Current	Total	Non-current	Current	Total
Trusts in colones									
Telecommunications building	Variable del 8,70%, en el 2018 y el 2017	2030	¢	17,705	927	18,632	18,104	885	18,989
RANGE	Fija del 2,95% (variable del 10,30%, en el 2017)	2034		21,492	494	21,986	21,351	797	22,148
Reventazón Hydroelectric Project	Variables del 8,75%, en el 2018 y el 2017	2033		222,154	7,430	229,584	222,208	7,377	229,585
Trusts in US dollars									
Reventazón Hydroelectric Project	Variable del 7,56% (variable del 6,94%, en el 2017)	2033		233,593	9,927	243,520	230,246	7,643	237,889
			¢	**494,944**	**18,778**	**513,722**	**491,909**	**16,703**	**508,612**

As of September 30, 2018, obligations from financial leases in US dollars correspond to US$417 million.

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

(Continues)

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

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

	Liabilities			
	Securities payable (bonds)	**Loans payable**	**Finance lease obligations**	**Total**
Balance as of December 31, 2017	1,151,314	983,691	508,612	2,643,616
Changes due to cash flows from financing activities				
Disbursements	19,478	33,301	7,857	60,636
Amortization	-	(74,291)	(8,377)	(82,669)
Total changes due to cash flows from financing activiti	19,478	(40,990)	(520)	(22,032)
Effect of exchange rate variations	21,020	14,719	5,630	41,369
Balance as of September 30, 2018	**1,191,812**	**957,419**	**513,722**	**2,662,952**

Nota 21. Provisions for Employees´ Legal Benefits

Employees' legal benefits are as follows:

		As of September 30, 2018			As of December 31, 2017		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits	¢	89,881	13,086	102,967	83,855	24,772	108,627
Total	**¢**	**89,881**	**13,086**	**102,967**	**83,855**	**24,772**	**108,627**

(Continues)

(In millions of colones)

A detail of the movement of these employer obligations is shown as follows:

		As of September 30, 2018
Opening balance	¢	108,627
Expensed - investment		3,790
Expensed - operation		17,690
Used		(27,140)
Total	**¢**	**102,967**

		As of December 31, 2017
Opening balance	¢	130,564
Expensed - investment		5,462
Expensed - operation		13,993
Used		(11,626)
Adjustments due to effect of actuarial study		(29,117)
Adjustments previous periods		(649)
Total	**¢**	**108,627**

Nota 22. Accounts Payable

Accounts payable are detailed as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Goverment (central, autonomous institutions and public financial entities)	¢	152,263	9,745
Taxes and employee withholdings		95,621	14,624
Other creditors		33,917	91,970
Total		**281,800**	**116,339**
Less reclassification of not current portion	**¢**	**(7,287)**	**(8,564)**
Current	**¢**	**274,513**	**107,775**

(*) See note 33.

(1) The significant increase in accounts payable (Government) is mainly due to executing pending offsetting processes with banks, due to the migration to the ERP system and the new transactional flows.

(Continues)

(In millions of colones)

Nota 23. Income Received in Advance

Current and non-current income received in advance are detailed as follows:

		As of September 30, 2018		As of December 31, 2017 (Restated)*	
		Non-current	Current	Non-current	Current
Prepaid mobile services (1)	¢	-	5,895	-	5,860
Government grants (2)		6,699	281	7,008	307
Transfer of spare parts - materials (3)		-	9,656	-	9,398
Other		-	3,857	-	3,063
Total	**¢**	**6,699**	**19,689**	**7,008**	**18,628**

(*) See note 33.

The following is a description of the nature of the main income received in advance as recorded by Grupo ICE:

(1) Prepaid Mobile:

It corresponds to the income received in advance related to the sale of mobile services, prepaid modality, which has not been consumed by clients as of the closing date. The income received for prepaid mobile services is recognized in the balance sheet, when Grupo ICE receives the money from its clients and wholesalers, and recognizes income and expenses in the consolidated statement of financial position, as end users receive 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 balance sheet once they are granted to them, and are systematically transferred to the statement of income and expenses, according to the useful life of the asset related to the received subsidy.

(Continues)

(In millions of colones)

Additionally, funds from the Project Management Trust and Programs from the National Telecommunications Fund (FONATEL) are booked. The funds are aimed at directly subsidizing the voice and broadband Internet services rendered to Public Services Rendering Centers in a specific Service Area.

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

They correspond to the transfer of ownership on behalf of Grupo ICE of the costs of spare parts, assets and necessary tools for maintaining Toro III and Garabito Plants, over which ICE did not make any expenditure. This income is realized on the statement of income and expenses, once the contractually established maintenance services are provided, and inventories transferred to ICE are used.

Nota 24. Other Provisions

Other legal provisions are detailed as follows:

		As of September 30, 2018	As of December 31, 2017
Litigation provision		2,466	1,849
Provision for mobile terminal warranties		1,666	1,794
Total	**¢**	**4,132**	**3,643**
Less: current portion		**(3,402)**	**(3,034)**
Other non-current provisions	**¢**	**730**	**609**

(Continues)

(In millions of colones)

A detail of the movement of provisions is shown as follows:

		As of September 30, 2018		
		Litigation provision	**Provision for mobile terminal warranties**	**Total**
Opening balance	¢	1,849	1,794	3,643
Expensed - investment		669	9	678
Expensed - operation		558	-	558
Used		(610)	(137)	(747)
Total	**¢**	**2,466**	**1,666**	**4,132**

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

(Continues)

(In millions of colones)

Nota 25. Other Liabilities

Other liabilities are detailed as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Security deposits	¢	53,808	52,610
Deposits from private individuals or companies		9,660	10,011
Valuation of financial instruments		(2,300)	4,344
Restricted founds		79	-
Total		**61,247**	**66,966**
Less reclassification of non-current portion	**¢**	**(53,886)**	**(52,610)**
Current	**¢**	**7,361**	**14,355**

(*) See note 33.

Nota 26. Accrued Employer Obligations Payable

Accrued employer obligations payable are as follows:

		As of September 30, 2018	As of December 31, 2017 (Restated)*
Back-to-school bonus		16,401	21,119
Vacation		30,844	19,770
Statutory Christmas bonus		20,258	1,930
Occupational hazard insurance		234	92
Third and fifth biweekly salary payment		841	-
Compensation for payroll downsizing		-	8
Total	**¢**	**68,578**	**42,919**

(*) See note 33.

(Continues)

(In millions of colones)

Movement of these employer obligations is as follows:

		Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly salary	Occupational hazard insurance	Compensation for payroll downsizing	Total
2018								
Opening balance	¢	19,770	1,930	21,119	-	92	8	42,919
Provisions made during the year - investment		5,514	4,438	2,852	7,863	1,293	2	21,962
Provisions made during the year - operation		9,838	13,925	13,869	-	-	-	37,632
Provisions used during the year		(4,312)	(160)	(21,439)	(7,023)	(1,151)	(10)	(34,093)
Adjustments		34	125	-	-	-	-	159
Total	**¢**	**30,844**	**20,258**	**16,401**	**841**	**234**	**-**	**68,578**

		Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly	Occupational hazard insurance	Compensation for payroll	Total
2017								
Opening balance	¢	19,304	1,733	20,684	-	485	8	42,214
Provisions made during the year - investment		5,181	9,659	3,453	9,711	1,521	-	29,525
Provisions made during the year - operation		15,589	17,728	18,233	-	-	-	51,550
Provisions used during the year		(20,304)	(27,190)	(21,251)	(9,711)	(1,914)	-	(80,370)
Total	**¢**	**19,770**	**1,930**	**21,119**	**-**	**92**	**8**	**42,919**

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

(Continues)

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

Nota 27. Memoranda Accounts

		As of September 30, 2018	As of December 31, 2017
Guarantees received:			
Performance bonds (1)	¢	169,948	172,296
Collection agents (2)		16,436	10,766
Bid bonds (3)		422	759
Security deposits		345	404
Subtotal guarantees received		187,151	184,226
Other guarantees received - sundry services		1,692	1,692
Assets in consignment		224	130
Quantification		36,190	-
Contingent assets:			
Guarantee and Savings Fund		30,864	29,936
CNFL Employees Association (ASEFYL)		14,086	14,296
Performance bonds - procurement		998	1,902
Materials in transit		2,408	2,494
Bid bonds		940	848
Collection of electricity services		1,204	1,178
Materials loan		146	126
Employee guarantees		273	67
Rental of posts		204	205
Performance bonds - labor contracts		179	151
Security deposits (electricity consumption)		363	361
Valle Central Wind Power Plant		85	83
CNFL performance bonds		776	861
Subtotal contingent assets		52,526	52,508
Contingent liabilities:			
Payment arrangements - financing of appliances		102	157
Total	¢	**277,885**	**238,713**

(Continues)

(1) Performance Guarantees – received

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

(2) Collection Agents

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

(3) Bid Bonds – received

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

Nota 28. Operating Income

Regulation of Electricity Services

Law No. 7593 “Law on the Costa Rican Public Service Regulatory Authority (ARESEP)” of August 9, 1996 establishes that “the Regulatory Authority will set prices and rates, and enforce compliance with standards of quality, quantity, reliability, continuity, timeliness, and optimum rendering of public services”, specifically with respect to the generation, transmission, distribution, and sale of electric power.

On March 19, 2012, through Resolution RJD-017-2012, published in La Gaceta No. 74 of April 17, 2012, the Regulatory Committee of ARESEP published the factors related to the cost of fuels in accordance with the Variable Fuel Cost (CVC) Methodology and the rate schedules to be applied in the four quarters of 2013, in effect as of January 1, 2013.

This methodology allows a faster recovery of the differential between actual and estimated fuel expenses from thermal generation since it considers the quarterly review to make the necessary adjustments in the rate schedules applicable in the following quarter.

(Continues)

(In millions of colones)

Telecom Service Regulation

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

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

Nota 29. Operating Costs and Expenses

Operating costs and expenses are detailed as follows:

	Costs of operation		Operating expenses	
	2018	2017	2018	2017
Depreciation	205,765	206,061	5,113	3,949
Private Generation (2)	124,003	103,053	-	-
Salaries	122,366	131,044	109,925	98,479
Agreements (1)	50,834	50,749	-	-
Amortizable intangible ítems	10,208	13,207	9,271	1,277
Fuel thermal generation	8,334	2,069	-	-
Import of energy	4,189	1,361	-	-
Others	148,996	126,664	194,420	179,971
Total	674,696	634,209	318,729	283,676

(Continues)

1. Below is a description of the lease agreements for telecom, transmission, and electric generation plant that are registered and classified as operating leases.

General features of the agreement						In millions of U.S. dollars											
Service order No.	**Lessor**	**Date of agreement**	**Starting date**	**Approximate expiration date**		**Amount of agreement**	**Total paid**	**Service order balance at June 30, 2017**	**Paid in 2017**	**No. of installments**	**Amount of installment**	**Purchase option**		**Expense in 2017**	**Expense in 2016**	**Frequency**	**Subject of the agreement**
Sin orden	Fideicomiso Titularización Cariblanco (1)	16-ago-00	29-feb-08	31-dic-19		304	273	31	19	147	2	8		10,610	9,215	Mensual	Arrendamiento planta Hidroeléctrica Cariblanco
Sin orden	Fideicomiso Proyecto Térmico Garabito (1)	05-nov-07	01-jul-10	31-mar-22		743	528	214	47	142	5	213		26,990	25,683	Mensual	Arrendar Planta Térmica Garabito
333059	Planta Geotérmica las Pailas (2)	07-mar-07	28-mar-12	31-dic-23		240	116	125	9	24	8	-		8,285	7,317	Semestral	Arrendar la Planta Geotérmica las Pailas.
351643	Junta Administradora de Servicios Eléctricos Municipal de Cartago JASEC (3)	14-abr-10	04-dic-13	14-abr-22		25	12	13	1	20	Entre US$ 1 637 y US$ 854 (en miles)	-		918	945	Semestral	Infraestructura conformada por la Subestación Reductora de Tejar, derechos de servidumbre y sitios de torres ampliación L.T Río Macho
Sin orden	Fideicomiso Planta Toro 3 (1) Y (4)	01-jul-13	30-jun-13	30-nov-24		131	51	80	7	142	$1	-		4,025	3,932	Mensual	Arrendar Planta Toro 3.
Total					**US$**	**1,443**	**980**	**463**	**83**				**¢**	**50,828**	**47,092**		

General features of the agreement																	
Service order No.	**Lessor**	**Date of agreement**	**Starting date**	**Approximate expiration date**		**Amount of agreement**	**Total paid**	**Service order balance at June 30, 2017**	**Paid in 2017**	**No. of installments**	**Amount of installment**	**Purchase option**		**Expense in 2017**	**Expense in 2016**	**Frequency**	**Subject of the agreement**
350702	Cooperativa de Electrificación Rural Guanacaste R.L (5)	16-feb-10	06-abr-10	06-sep-21	¢	87,848	50,191	37,656	4,190	138	Variable entre ¢617 y ¢473	¢3.541 aproximadamente	¢	4,190	3,657	Mensual	Arrendamiento de infraestructura para transmisión eléctrica Liberia, Papagayo - Nuevo Colón.
Subtotal - Operating leases - colones													¢	**4,190**	**3,657**		
Total - Operating leases													¢	**55,018**	**50,749**		

(Continues)

(1) <u>Securitization Trusts:</u>

Grupo ICE entered into Securitization Trust Agreements with Banco Nacional de Costa Rica and Banco de Costa Rica, whereby Grupo ICE acts as the trustor and beneficiary and the corresponding Banks are named as the trustees. The creation of the agreements is the independent generation and management of the necessary financial resources to build the Cariblanco and Toro III hydroelectric power plants, and the Garabito thermal power plant. These plants will be part of the equity of the trusts (trust assets), and once their construction is completed, they will be leased to ICE for terms ranging from 11 to 15 years. At the end of the lease terms, ICE may exercise the purchase option established in each lease agreement.

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

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

The main clauses of the trust agreements are summarized below:

- The purpose of the agreements is to create trusts to generate and manage the necessary resources for development of the projects, serve as vehicles to create autonomous equity that will be used in a securitization process, and obtain the necessary resources to finance the project.

- Trust assets will comprise the following:

  a) The liquid assets generated by the trusts from the issue and placement of debt securities.

  b) The trustor's movable property and tangible and intangibles assets (deemed essential to the agreement's purposes) transferred in trust; civil works; equipment; facilities; repair shops; vehicles; equipment and materials; office and computer equipment (including software, documents, licenses, and other assets acquired with trust funds to develop the projects and to operate and provide maintenance to the plants); rights to use the land owned by the trustor as required to develop the projects; and all written information and studies conducted for and during the development of works managed by the trusts.

(Continues)

c) The agreed-upon income from the lease of power plants.

d) Any other income obtained by the trusts in the normal course of business.

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

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

- The trustor must appoint a Manager from the Execution Unit, who should be accepted by the trustee, and who shall act as the 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 ipso jure to the trustor, who will become the legitimate owner.

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

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

- For purposes of these lease agreements, the corresponding securitization trusts are the lessors and ICE is the lessee. In the specific case of the Securitization Trust of the Toro III Hydroelectric Power Plant, the lessees are ICE and JASEC, in conformity with an alliance established between ICE and that institution (see item No. 4 of Toro III Hydroelectric Power Plant).

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

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- The lessee may unilaterally request early termination of the lease agreement. The lessee shall communicate this in writing three months in advance. In the event of early termination of the lease agreement, the lessee must pay any outstanding obligation, as well as an amount (comparable to a penalty clause) equivalent to 12, 6, or 3 monthly lease payments, depending on the time elapsed from the inception of the lease agreement to its early termination.

- As lessee, ICE shall be in charge of operation of the plant. Accordingly, ICE assumes responsibility for any damages to the plant's facilities resulting from its operation and maintenance.

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

(2) Las Pailas Geothermal Plant:

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

Subsequently, ICE, as the lessee, will be responsible for 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 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 Project, starting from the date of satisfactory receipt of the plant by ICE.

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

- At the end of the lease term, the amount of the purchase option will be equivalent to 15% of the total cumulative investment made at the end of the construction phase.

- CABEI will make an investment of US$130 million for the construction of the plant.

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

  a) Actual cumulative amount of direct investments made by CABEI for construction of the plant;

  b) 0.75% (one time only) of CABEI's direct investment at the time CABEI makes the first disbursement of the direct investment;

  c) 0.75% of the estimated direct investment that has not yet been used for construction of the plant;

  d) Return calculated at the 6-month LIBOR rate plus 2.25% on the partial cumulative investment made during construction of the plant;

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

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

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

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

(3) Tejar Step-down Substation- JASEC:

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

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

(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.

The partnership agreement involved the execution of a 137-month lease agreement with a purchase option, whereby ICE and JASEC act as lessees and the Toro 3 Hydroelectric Power Project Securitization Trust as the lessor (see note 6.)

The business alliance between ICE and 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 will participate in the development of the Project, with an ownership interest of fifty percent (50%) (see note10).

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

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

- Monthly payments in colones that the lessor must make to its creditors (BCR and Banco Popular and de Desarrollo Comunal as a result of the loans granted to Coopeeguanacaste), and

Amounts payable by the lessor for monthly infrastructure maintenance costs.

2. The following is a description of private generators of Grupo ICE.

Under the terms of Law 7200 "Law for the Authorization of Autonomous or Parallel Energy Generation," which declares a matter of public interest the purchase of energy by ICE to those private companies that comply with the conditions contained in this Law, ICE has entered into agreements with various private generators for purchasing energy. This Law provides for two systems or chapters: Chapter I, "Autonomous or Parallel Generation," which generates the so called BOO (build, Own, and Operate)

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agreements, and Chapter II, “Purchase of Power under the Competition System”, which generates the so called BOT (Build, Operate, and Transfer) agreements).

As of December 31, 2017, Grupo ICE has entered into seven power purchase agreements under Chapter II that correspond to BOT agreements (Built, 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., 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 will be sold exclusively to Grupo ICE. At the end of the term of those agreements, the ownership, management, and operation of the plants will be automatically transferred to ICE, free of any liens and encumbrances. The corresponding private generators or Grupo ICE may request the early transfer of the power generation 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, evidence, startup 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 contracts.

- The private generators take the risk for damage, loss or destruction of the equipment and facilities, during the term of the contract, 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 forms for inflation, and which apply on the operating and maintenance cost component.

From the plant’s commercial operation beginning date, the private generators must, at their own expense, obtain and maintain, at least, the following insurance policies, according

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to their availability in the market: worker's compensation and full liability for physical injuries.

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

- Tampering of meters
- Non-compliance in relation to the condition in the point of delivery agreed, under the responsibility of the private generator.
- Inability of the private generator to supply the energy in accordance with the parameters of operation required.
- For failure to renew the performance bond.
- For failure to renew the insurance policies.

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

For private generators who have entered into agreements under Chapter I of Law No. 7200, the following three types of agreements are in effect:

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

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 exceeding of the maximum power output agreed. Electricity received in light of these agreements is paid at the rates in effect set by ARESEP upon delivery.

Under Chapter I of Law N° 7200, Grupo ICE signed agreements as of the date 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 renewal, for the remaining term of the concessions (which were granted for 20 years.) Currently,

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agreements are being renewed once the companies obtain new concessions, both for use of water forces, in case of hydroelectric projects, and the generation public service granted by ARESEP. Moreover, new plants are being included and their agreements were entered into a result of the bidding processes 2012 and 2014. Currently, agreements have been entered into with 28 company: 8 wind plants, 2 sugar factories, and 18 hydroelectric plants.

In addition, as of 2012, once ARESEP published the rates for new plants, and the new regulation for Chapter I of Law No. N° 7200 was published, ICE started the selection process of projects with which new agreements will be signed. In June 2012, Bid No. 01-2012 was published, through which five wind projects and six hydroelectric projects were selected, of which agreements were entered into with the wind power projects of Tilawind, Campos Azules and Altamira in Tilarán, and Vientos de la Perla and Vientos de Miramar in Liberia, which became operational in the first quarter of 2015 and the first quarter of 2017. Of the hydroelectric projects, only El Ángel Ampliación executed an agreement and it 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 and four hydroelectric projects were selected, of which one refused the selection. In December 2015, the Vientos del Este Wind Power Plant began operations and generates 9 MW. In July 2016, Mogote Wind Power Plant began operations and generates 20 MW. The agreements for the hydroelectric projects were subscribed during the second semester of 2017.

Rate Adjustments for Independent Power Plants

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

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

Ruling RIE 099-2016 dated November 17, 2016 was published in the Official Gazette on November 22, 2016, which authorized the rate setting for biomass plants (bagasse), in

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accordance with the "Rate setting methodology according to the typical cost structure of a model plant for electricity generation with sugarcane bagasse for sale to ICE and indexation formula”.

(In millions of colones)

Nota 30. Other Operating Income

	For the year period September 30, 2018	2017
Contruction services (1)	10,478	2,725
Others	15,020	24,367
Total	**25,498**	**27,092**

(1) Construction services include invoices for advance advances or finalization of works by engineering, design, construction, or other specialized services agreement provided by Grupo ICE to third parties and related to projects in the construction stage. The item "Electromechanical and civil works contracts" account for the costs associated with these construction contracts.

Nota 31. Financial Income and Other Expenses

		For the period ended September 30, **2018**	**2017**
Income from investments (1)	¢	17,427	20,302
Finance costs (3)		(147,283)	(126,624)
Foreing exchange differences, net (2)		(35,168)	(55,143)
Investments in others companies		551	-
	¢	**(164,473)**	**(161,465)**

A description of the main transactions made is the following:

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

(2) As a result of the transactions in foreign currency, the valuation of monetary assets and liabilities denominated in foreign currency during the period ended September 30, 2018, income and expenses were recognized for exchange rate fluctuations for the sum of -¢35.168 (-¢55.143 of expense, respectively, in 2017). To value such monetary assets and liabilities at the end of the period, an exchange rate of ¢584 (¢572,32 in 2017) was used.

(3) Fees and interest expense, especially internal debt securities and external debt securities, as well as financial leases.

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Nota 32. <u>Tax Regulations</u>

(a) <u>Tax Obligations</u>

ICE is subject to tax obligations governed by the *Income Tax Law* (Law No. 7092) and amendments thereto, the *Regulations to the Income Tax Law* and amendments thereto, the *General Sales Tax Law* (Law No. 6826) and amendments thereto, the *Regulations to the General Sales Tax Law* and amendments thereto, the *General Customs Law* and regulations and amendments thereto, the *Law on Strengthening and Modernization of Public Telecommunication Companies* (Law No. 8660), and the *General Telecommunications Law* (Law No. 8642).

(b) <u>Income Tax</u>

Instituto Costarricense de Electricidad is a taxpayer subject to the income tax, as it performs profitable activities and generates profits. On the other hand, Law Decree Number 449, regarding the creation of *Instituto Costarricense de Electricidad*, is established in article 17 as follows: "*ICE's financial practices shall aim at capitalizing net profits obtained through the sale of electrical energy and any other source it may have access to, in the financing and implementation of national energy plans and the promotion of the industry based on electrical energy*."

In addition, Law No. 7722 entitled "Government Institutions Subject to Payment of Income Tax" stipulates that "*excess of income over expenses constitute taxable income and shall be calculated as gross income less costs, productive expenditures, and investment reserves or development funds that are necessary and relevant to production of that income.*"

Given that Grupo ICE must reinvest the total net profit it obtains, no surplus is produced, which means that it does not show any taxable income, and, therefore, it 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 sales tax liability.

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

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(c) General Sales Tax

ICE is a taxpayer for the general sales tax, pursuant to the General Sales Tax Law N°6826. This is a value added tax on the sale of goods and rendering of services. The fees applied are the following: for the sale of energy for residential consumption, 5% over the excess of 250 kw of monthly consumption; 13% for commercial consumption and rendering of telecommunications services.

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

(d) Special parafiscal contribution for telecommunications carriers and providers to the National Telecommunications Fund (FONATEL) (General Telecommunications Law Number 8642)

Article 39 of the General Telecommunications Law Nº 8642 sets forth a quasi-fiscal tax to finance the National Telecommunications Fund (FONATEL) to ensure compliance with the principles of universal access, universal service, and cooperation. The quasi-fiscal tax will levy on 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 defined in an affidavit issued for periods of one calendar year. The affidavit must be filed by March 15 of each year and the tax is paid in four equal installments on the 15th 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 will 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 will be used.

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(e) Parafiscal Contribution to Telephony Services

Law N° 9355 published on May 27, 2016 “Amendments to Several Laws to Finance the Costa Rican Red Cross” created a parafiscal contribution for the Costa Rican Red Cross.

This contribution has 1% rate of the amounts paid by the owners of a conventional, mobile, prepaid, or postpaid telephone line or any other type of telephony service. The amounts collected must be paid not later than the fifteenth calendar day of each month. Such Law derogates Law 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

Law No. 8228, “Law of the Meritorious Firefighter Department of Costa Rica”, dated March 19, 2002 was amended through Law No. 8992, “Law for the Economic Strengthening of the Meritorious Firefighter Department of Costa Rica”, published in the Official Gazette on September 22, 2011. The latter Law amends articles 28 and 33 as well as article 40 of Law 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 billings for electricity consumption of subscribers.

(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 Law, which is defined as follows: It is an ad-valorem tax determined according to a classification within the tax code established. The following are included among the internal taxes: Selective Excise Tax (rate according to goods), Tax Law No. 6946 (1%), General Sales Tax (13%), other specific taxes from IDA (Instituto de Desarrollo Agrario), IFAM (Instituto de Fomento y Asesoría Municipal), Depósito Libre de Golfito, among others. Thus, based on the type of merchandise or goods eligible for exemption, ICE has to pay the customs duties obligations for goods imported before customs clearance.

(h) Other Obligations

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

(Continues)

(In millions of colones)

- Salaries, labor payments, compensation for personal services and directors´ fees.
- 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 Law.

Nota 33. Reclassifications

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

Assets		December 2017 (previously reported)	Adjustment due to changes in the presentation of financial statements	December 2017 (Reclassified)
Non-current assets:				
Property, plant and equipment, net	¢	5,013,533	-	5,013,533
Intangible assets		92,078	-	92,078
Equity investments		30,686	-	30,686
Notes and other accounts receivable		3,159	-	3,159
Investments in financial instruments		134,296	(23,884)	110,412
Guarantee and Savings Fund		221,056	-	221,056
Deferred tax assets		-	390	390
Total non-current assets	¢	**5,494,808**	**(23,494)**	**5,471,313**
Current assets:				
Inventories		97,039	-	97,039
Notes and other accounts receivable, net		43,848	22,323	66,171
Temporary investments		30,240	23,890	54,130
Restricted funds		16,822	(15,521)	1,301
Trade receivables, net		106,144	980	107,124
Prepaid expenses		69,788	(23,303)	46,485
Other assets		2,680	(390)	2,290
Cash and cash equivalents		172,904	15,516	188,420
Total current assets	¢	**539,465**	**23,494**	**562,959**
Total assets	¢	**6,034,273**	**-**	**6,034,273**

(Continues)

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

Liabilities and Equity		December 2017 (Previously reported)	Adjustment due to changes in the presentation of financial statements	December 2017 (Reclassified)
Equity:				
Paid-in capital	¢	211	-	211
Others reserves		13,666	-	13,666
Restricted earnings from capitalization of shares in subsidary		62,380	-	62,380
Actuarial gain (loss)		8,811	-	8,811
Income from investments in other companies		(148)	-	(148)
Valuation of non-derivate financial intruments and hedges		(16,267)	-	(16,267)
Retained earnings		203,232	-	203,232
Development reserve		2,506,594	-	2,506,594
Equity attributable to awners of ICE		**2,778,479**	**-**	**2,778,479**
Minority interests		4,314	-	4,314
Equity, net		**2,782,793**	**-**	**2,782,793**
Liabilities:				
Non-current liabilities:				
Securities payable		1,151,314	-	1,151,314
Loans payable		883,003	158	883,161
Finance lease obligations		491,909	-	491,909
Employee benefits		83,855	-	83,855
Accounts payable		8,564	-	8,564
Prepaid income		7,008	-	7,008
Guarantee and Savings Fund		221,056	-	221,056
Deferred tax liabilities		-	1,528	1,528
Other provisions		609	-	609
Other liabilities		52,610	-	52,610
Total non-current liabilities	¢	**2,899,928**	**1,686**	**2,901,614**
Current liabilities:				
Loans payable		100,530	-	100,530
Finance lease obligations		16,703	-	16,703
Employee benefits		24,772	-	24,772
Accounts payable		98,386	9,389	107,775
Prepaid income		18,361	267	18,628
Accrued employer obligations payable		52,228	(9,309)	42,919
Accrued interest payable		21,149	-	21,149
Other provisions		3,034	-	3,034
Other liabilities		16,389	(2,033)	14,356
Total current liabilities		**351,552**	**(1,687)**	**349,865**
Total liabilities		**3,251,480**	**-**	**3,251,480**
Total liabilities and equity		**6,034,273**	**-**	**6,034,273**

(Continues)

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

		September 2017 (Previously reported)	Adjustment due to changes in the presentation of financial statements	September 2017 (Reclassified)
Operating income:				
Electricity services	¢	566,107	-	566,107
Telecom services		438,532	636	439,168
Other services		636	(636)	-
Construction services		2,725	(2,725)	-
Total operating income		**1,008,000**	**(2,725)**	**1,005,275**
Operating costs:				
Operation and maintenance		360,636	-	360,636
Operation and maitenance of leased equipment		73,879	-	73,879
Depreciation of operating assets		-	-	-
Supplemental services and purchases		135,841	-	135,841
Contracts for civil and electromechanical works		3,942	(3,942)	
Production management		53,802	-	53,802
Technical service center		10,051	-	10051
Total operating costs		**638,151**	**(3,942)**	**634,209**
Gross surplus		**369,849**	**1,217**	**371,066**
Other income		-	26,721	26,721
Operating expenses:				
Administrative		84,208	-	84,208
Selling expenses		167,720	-	167,720
Pre-investment studies		2,647	-	2,647
Preliminary studies		15,040	-	15,040
Supplemental		2,128	-	2,128
Other expenses		-	11,933	11,933
Total operating expenses		**271,743**	**11,933**	**283,676**
Operation surplus		**98,106**	**16,005**	**114,111**
Finance income and costs:				
Investment income		-	20,302	20,302
Finance income		20,302	(20,302)	
Finance costs		(126,624)	-	(126,624)
Exchange fluctuations		(55,143)	-	(55,143)
Income from investments in other companies		-	371	371
Other income		24,367	(24,367)	-
Other expenses		(7,991)	7,991	
Total finance income and costs		**(145,089)**	**(16,005)**	**(161,094)**
Net deficit of the year before income tax		**(46,983)**	**-**	**(46,983)**
Income tax		(1,089)	-	(1,089)
Minotary interest		151	-	151
(Deficit), net	¢	**(47,921)**	**-**	**(47,921)**

(Continues)

Nota 34. Institutional Financial Risk Management

Grupo ICE is exposed to the following risks from financial instruments: *credit* risk (noncompliance by customers or counterparties), *liquidity* risk (inability to meet obligations due to lack of liquidity), and *market* risk (includes exchange rate, interest rate, and commodities.) The three risks impact Grupo ICE´s management, but treatment is individualized. For example, in case of ICE, credit risk is regulated with the Investment Committee through a rigorous analysis of issuers and camels ratings; liquidity risk is controlled with treasury cash flows of the telecom and electricity sector, and as to market risks, through financial hedge or financial derivatives. Thus, by having an Investment Committee, risk exposure is kept under control.

The Institutional Investment Committee is the entity in charge of controlling and following up on the management of the temporary investments of Grupo ICE's electricity and telecom sectors. This is the body to which the Financial Division delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) in respect of investment decisions, which include investment limits, currency, sector as well as the risk levels for the portfolio composition.

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

Pursuant to the Risk Committee's Internal Regulations, the coordination of the Institutional Risk Committee is transferred to the Executive Office of the President, since the General Management disappears.

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Additionally, the Finance Division has made efforts to determine action plans and goals to meet the 2013-2021 financial plan and strategy. Accordingly, this Division submits management reports to senior management.

a) Accounting Classifications and Fair Values

Some of the financial assets of Grupo ICE are measured at fair value at the end of the reporting period. The following table provides information on how fair values of these financial assets are determined:

Financial Assets		As of September	Type		As of December	Type	Fair Value Hierarchy	Valuation Techniques and Key Indicators
Short-term investments (see note 15)	¢	60,163	Asset	¢	30,240	Asset	Level 1	The valuation is made taking the yield rate, shown in the price vector of Proveedor Integral de Precios (PIPCA) as of 09/30/18.

Risk management policies and support systems used are regularly reviewed to reflect changes in market conditions the Group`s activities. The Audit Committee supervises how management monitors compliance with Grupo ICE´s risk management procedures and policies, and it reviews the appropriateness of the risk framework regarding the risks faced by Grupo ICE. The Audit Committee is assisted in this task by the Internal Audit Department.

Except as detailed in the following table, Management considers that the carrying amount of the financial assets and liabilities recognized in the financial statements are approximate to their fair value:

(Continues)

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

		As of September 30, 2018		As of December 31, 2017	
		Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets					
Loans and accounts receivable:					
- Notes receivable	¢	2,969	2,926	5,233	5,160
Financial liabilities					
Financial liabilities measured at amortized cost:					
- loans	¢	2,149,130	2,060,282	2,134,847	2,072,800
Financial leases payable		513,721	552,729	508,612	523,252

Fair Value Hierarchy

		As of September 30, 2018			As of December 31, 2017	
		Level 1	**Level 2**		**Level 1**	**Level 2**
Financial assets						
Loans and accounts receivable:						
- notes receivable	¢	-	2,926	¢	-	5,160
Financial liabilities						
Financial liabilities measured at amortized cost:						
- loans	¢	1,107,931	952,351	¢	1,129,965	942,835
Finance leases payable		41,823	510,906		43,252	480,000

The fair values of financial assets and liabilities included in Level 1 and Level 2 categories presented above have been determined according to generally accepted valuation models based on a discounted cash flows analysis, with the most significant indicators, such as the discount rate, that reflects credit risk of the counterparties.

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a) Risk Management

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

- credit risk
- liquidity risk
- market risk

i) Risk Management Framework

In addition, in January 2018, an update was made of the Corporate Policy for Financial Risk and Financial Hedge Management, in effect since 2011.

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*."

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 Finance Division through the Financial Risk Process.

The use of financial derivatives is in accordance with Grupo ICE's policies 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.

Each year, the Finance Division develops a financial risk map for ICE together with other ICE departments and management of Grupo ICE and follows-up on action plans and control, some indicators are indicators of the financial risk management.

(Continues)

(In millions of colones)

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, equivalents, accounts receivable, and investments.

As a way to mitigate this risk, control and follow up to risk ratings of investments granted by the risk rating agencies is implemented. There are investment limits in the institutional portfolio by market (local and international), by sector (public, rest of the public sector, private sector, and by issue), by 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 the lack of control policies and measures to manage the level of credit granted to customers, which may jeopardize income and generate high financial losses as a result of bad debt. To mitigate this risk, RACSA applies customer quality controls through credit protectors and filters the portfolio of customers in arrears, developing customer profiles.

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

Value in books of financial assets		30, **2018**	31, **2017**
Cash and equivalent to cash	¢	323,313	188,420
Transitory investments, net		60,163	54,130
Long term investments		30,816	30,686
Fund of savings and loans		220,780	221,056
Funds of restricted use		1,851	1,301
Documents and account payable		265,253	176,454
Total	¢	**681,396**	**450,991**

(Continues)

- *Accounts Receivable*

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

- In the Telecom Segment, issue of the bill and collections procedure via messaging to remind the customer of the outstanding payment.

- Immediate suspension of electricity and telephone services after the bill's due date. The average collection periods for the Telecom and Electricity segments are 29 days and 31 days, respectively. Collection periods are determined by each segment (Collections Management Policy).

- Online collection process through contracts with external collection agents and banks, or internal collection through ICE's cashier windows.

- In the event that the balance outstanding is not recovered, the administrative collection process begins 35 days after the services have been suspended. Administrative collection involves locating the customer and informing about the delinquency as well as notifying the credit protector thereof so that the situation is included in the customer's credit history. For such purposes, ICE has companies dedicated to collections or coordinating payment arrangements with customers to mitigate arrears.

As a last resort, any residual past due accounts are processed by ICE's Corporate Legal Division and collection is pursued by legal action.

Note 5 "Significant accounting policies" explains in detail the accounting policy for booking the allowance and the administrative and legal collection processes.

(i) *Investments*

From a point of view of the counterparty or credit risk, there is a follow-up and control of the investment ratings of Grupo ICE in accordance with the Investment Strategy and the risk profile determined by the Investment Committee.

The financial risks to which all the financial transactions related to the financial instruments are exposed are as follows: short, medium, and long-term financing; everything related to treasury management: lines of credit, bank letters, currency purchases and sales, investments, issuance of securities, raw material purchases, among others.

(In millions of colones)

Through agreement of the Board of Directors, Meeting 6148 on September 07, 2015, it approved the guideline to Authorize the Finance Division in compliance with the Risk Policy and Financial Hedge Strategy, to contract financial derivatives to mitigate the effects of the foreign exchange and/or interest rate risks in financial transactions; therefore, the agreement issued by the Board of Directors, Meeting 6063 on October 23, 2013 to set a limit of US$970 million and only for colón/dollar hedges became ineffective. .

In accordance with the Risk Strategy, the limits to take hedge positions according to the risks identified are:

a. colón/ dollar exposure = 10%
b. yen exposure = 40%
c. variable rate exposure = 40%
d. Minimum hedge terms for colón/ dollar = longer than 1 year, for instance, 3, 5, 7 years.
e. Automatic rollovers of the colón/dollar hedge derivatives, already existing according to the Finance Management Division and the market conditions.

For debt transactions in non-functional currencies with participation percentages lower than 1% of the total debt, the strategy is not to hedge the possible exposure given the volume and the cost-benefit analysis.

The investment guidelines are approved by the Board of Directors and the Investment Policy Manual of the Corporate Administrative and Finance Management Division. The Manual contains all the regulations for issuers, instruments, and allowed sectors, as well as any regulations related to brokerage houses and custody entities.

As of September 30, 2018, maximum exposure to credit risk for notes and other accounts receivable and trade accounts receivable, by geographic region, is the following:

Geographic region		**As of September 30, 2018**	**As of December 31, 2017**
		TOTAL	
Costa Rica	¢	251,362	172,084
Others countries		13,891	4,370
Total	**¢**	**265,253**	**176,454**

(Continues)

(In millions of colones)

As of September 30, 2018, maximum exposure to credit risk for notes and other accounts receivable and trade accounts receivable, by type of customer, is the following:

Type of counterparty		As of September 30, 2018	As of December 31, 2017
		Consolidado	
Private individuals	¢	155,465	130,713
Other - Goverment		55,381	15,710
Others		54,429	30,031
Total	¢	**265,276**	**176,454**

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 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 income projection, resulting in the ability to control treasury cash flow. These measures in the projection of liabilities and expenses, as well as for the income 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 currencies and access to short- and medium-term credit lines, among others.

The Finance Division performs short, mid and long term cash flow projections that are used to estimate purchase 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 petty cash, and in compliance with the treasury policies, the businesses, and different areas of the company should send the payment schedule corresponding to 12 months. In addition, an important input is the information obtained from the institutional payment system, which not only provides the exact

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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 income and the areas responsible for managing financing that allow a better matching are important, in order to optimize Treasury Management and obtain a better and timely attention of the 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 is for a maximum of 30 days, once a week, except for the engagements where payoff date is fixed or ineludible, as of the event that originates the payment and presentation of invoice. Also, the policies establish the bank transfer as payment method, and payment orders are processed through the institutional payment system.

Lines of credit are part of the instruments that Management uses to finance working capital needs, issue of performance or bid bonds, opening and refinancing of letters of credit, which use throughout the years has allowed it 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 the lowest cost bank. Line of credit transactions are documented with a promissory note. The purpose of using lines of credit is covering mismatches between the date of receipt of income and the date of payment of obligations and other liabilities, typical of cash flow management.

(Continues)

Notes to the Consolidated Financial Statements
(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:

Liabilities		**Value on Books**	**Expected Cash Flow**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Securities payable	¢	**1,172,961**	1,942,184	75,617	247,639	779,963	838,965
Documents payable		**869,932**	1,036,020	35,123	222,944	398,675	379,278
Financial Lease Obligations		**494,944**	896,256	41,188	147,532	327,067	380,469
Accounts payable		**7,287**	7,287	-	971	1,458	4,858
Total Long Term Liabilities		**2,545,124**	**3,881,747**	**151,928**	**619,086**	**1,507,163**	**1,603,570**
Securities payable		**18,851**	18,851	-	-		
Documents payable		**87,486**	87,486	-	-	-	-
Financial Lease Obligations		**18,778**	18,778	-	-	-	-
Accounts payable		**274,513**	274,513	-	-	-	-
Financial expenses payable		**33,094**	33,094	-	-	-	-
Total Short Term Liabilities		**432,722**	**432,722**	**-**	**-**	**-**	**-**
Total	¢	**2,977,846**	**4,314,468**	**151,928**	**619,086**	**1,507,163**	**1,603,570**

(Continues)

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

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

Liabilities		**Value on Books**	**Expected Cash Flow**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Long Term Liabilities							
Securities payable	¢	**1,151,314**	1,875,278	-	158,040	930,281	786,957
Documents payable		**883,476**	1,156,339	-	186,040	451,662	518,637
Financial Lease Obligations		**491,909**	860,112	-	105,727	368,819	385,566
Accounts payable		**8,564**	8,564	7,673	211	680	-
Total Long Term Liabilities		**2,535,263**	**3,900,293**	**7,673**	**450,018**	**1,751,442**	**1,691,160**
Circulating							
Securities payable		**100,583**	100,583	100,583	-	-	-
Documents payable		**16,703**	16,703	16,703	-	-	-
Financial Lease Obligations		**69,809**	69,809	69,809	-	-	-
Accounts payable		**21,187**	21,187	21,187	-	-	-
Financial expenses payable		**208,282**	208,282	208,282	-	-	-
Total Short Term Liabilities		**208,282**	**208,282**	**208,282**	**-**	**-**	**-**
Total	¢	**2,743,545**	**4,108,575**	**215,954**	**450,018**	**1,751,442**	**1,691,160**

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iv) Market Risk:

The market risk is the risk resulting from changes in market prices, for example, exchange rates, and interest rates affecting Grupo ICE's income or the value of the financial instruments it keeps. 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 administer part of the existing market risk, which are valued according to the value provided by the instrument's issuer. Hedge accounting is used for those instruments that qualify, in order to mitigate volatility in the market prices of the financial instruments that have an effect on profit or loss.

Derivative financial instruments are traded with first tier banks with which confidentiality agreements and other documentation to trade derivatives have been formalized. ICE has made the decision, according to the risk strategy, to trade derivatives, specifically for existing liabilities.

The following risks have been determined for financial operations: variations in the interest rate (domestic and foreign) and foreign currency exchange rate, which affect the cash flow results, the value of instruments, and others. For such purpose, thirteen derivative financial instruments have been acquired: two to cover interest rate risk (interest rate swaps), two to cover Japanese yen exchange rate to the US dollar, called Cross Currency Swap, and nine Non Delivery Currency Swap to cover part of the colón/dollar exposure.

Currency Risk

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

As part of the financial hedge policies:

The goal is to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the financial risks related to the exchange rate. These instruments must be designated as hedging instruments; instruments for speculation are not accepted. Consequently, these instruments shall be booked applying "hedge accounting".

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Some of the instruments that may be used are the following:

a) Forward
b) Plain vanilla
c) Interest rate swap
d) Exchange rate swap
e) Non-deliverable forward
f) Cross-currency swap

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

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

Exposure to Currency Risk

As of September 30, 2018, Grupo ICE's exposure to currency risk is as follows:

	US dollars		Yen		Euro	
	September 2018	December 2017	September 2018	December 2017	September 2018	December 2017
Assets						
Materials in transit for investment	14	21	(0)	2,814	-	1
Long-term investments	133	50	-	-	-	-
Notes receivable	5	5	-	-	-	-
Banks and temporary investments	144	112	-	-	-	-
Receivables for services rendered	(14)	16	-	-	-	-
Non-trade receivables	36	11	-	-	-	-
Materials in transit for operation	2	1	-	-	-	-
Advances suppliers	-	-	-	-	-	-
Restricted funds	1	1	-	-	-	-
Total assets in foreign currency	**322**	**217**	**(0)**	**2,814**	**0**	**1**
Liabilities						
Securities payable	1,557	1,558	-	-	-	-
Short- and long-term loans payable	986	1,115	20,186	17,604	-	-
Short- and long-term finance leases	417	417	-	-	-	-
Security deposits	2	60	-	-	-	-
Accounts payable	204	80	2,755	3,142	3	3
Accrued finance expenses payable	37	25	57	-	-	-
Deposits from private individuals or companies	-	1	-	-	-	-
Valuation of financial instruments	-	8	-	-	-	-
Total liabilities in foreign currency	**3,203**	**3,264**	**22,998**	**20,746**	**3**	**3**
Excess liabilities over assets	**2,881**	**3,047**	**22,998**	**17,932**	**3**	**2**

Items in US dollars were updated using the selling exchange rate for the colón with respect to the US dollar established by the Central Bank of Costa Rica for operations with the non-banking public sector. As of September 30, 2018, the rate was established in ¢584,00 (¢572,32 as of September 30, 2017)

(Continues)

(In millions of colones)

The following exchange rates have been applied:

Currency	Exchange rate - US dollars As of September 30, 2018	As of December 31, 2017
Swedish krona	8.90	8.18
Pound sterling	1.30	1.35
Swiss franc	0.98	0.97
Euro	1.16	1.19
Colones	584.00	570.49
Japanese yen	113.60	112.69

In the case of currency operations, Grupo ICE adheres to the provisions of Law No. 7558, *Internal Regulations of the Central Bank of Costa Rica,* dated November 27, 1995. Article 89 of that law states that "Non-banking public sector institutions shall execute their currency buy and sell transactions through the Central Bank of Costa Rica or State-owned commercial banks". For its operations, ICE will perform transactions at the exchange rates established by BCCR at the date of the transactions.

Sensitivity Analysis

The following chart shows the sensitivity as of September 30, 2018 and 2017 at an increase or decrease in US$ exchange rate respect of the Costa Rican colón. Grupo ICE uses 10% sensitivity rate, which represents the best estimate of US dollar variations respect of the Costa Rican colón

dollars		September 2018	December 2017
Sensitivity to an increase in the exchange rate:			
Net dollar position (expressed in colones) at the exchange rates prevailing	¢	1,682,715	1,738,283
Net dollar position	USD	2,881	3,047
10% increase in the exchange rate	¢	1,850,987	1,912,111
Loss	¢	(168,272)	(173,828)
Sensitivity to a disminuicón in the exchange rate:			
Net dollar position (expressed in colones) at the exchange rates prevailing	¢	1,682,715	1,738,283
Net dollar position	USD	2,881	3,047
10% decrease in the exchange rate	¢	1,514,444	1,564,455
Gain	¢	168,272	173,828

This analysis estimates that all other variables, especially interest rate and exchange rate, remain constant.

(Continues)

Interest Rate Risk

Grupo ICE adopts a financial hedge policy, which establishes that minimum exposure percentage in variable rate is 40%. To comply with the policy, hedge instrument with fixed interest rate are entered into, or when considering liabilities at a fixed rate, by using interest rate financial swaps, cash flows variation attributable to interest rate risk is covered.

Exposure to Interest Rate Risk

Grupo ICE keeps important assets and liabilities, mainly represented by short-term investment, long-term investments, as well as securities payable and notes payable obtained to finance commercial operations, which are subject to interest rate variations.

Regarding financial assets and liabilities, detail of interest rates is found in the following notes:

	Note
Securities payable	20 A
Temporary investments	15
Notes payable	20 B
Long-term investments	12
Effects and receivables	11
Financial leasing payables	20 C

(Continues)

(In millions of colones)

Sensitivity Analysis

With interest rate risk management, Grupo ICE attempts to reduce impact of fluctuations in the short term over profits. Regarding short-term investments, long-term investments, as well as securities payable and notes payable, permanent changes in interest rates would have an impact on profits.

During the period ended December 30, 2018, it is estimated that a general strengthening, as well as a weakening, of a percent point in interest rates, would have meant a variation in financial assets and liabilities, according to the following detail:

	Effect on income income-expenditure					
		September 2018			December 2017	
		Strengthening of 1%	Weakening of 1%		Strengthening of 1%	Weakening of 1%
Temporary investments	¢	1,366	(1,366)	¢	1,045	(1,045)
Long-term financial investments		1,421	(1,421)		1,976	(1,976)
Long-term receivables		1,895	(1,895)		1,355	(1,355)
Short-term receivables		245	(245)		1,693	(1,693)
Long-term securities payable		11,730	(11,730)		11,246	(11,246)
Short-term securities payable		189	(189)		-	-
Long-term payables		-	-		6,582	(6,582)
Short-term payables		859	(859)		2,551	(2,551)
Financial Lease Payable		5,137	(5,137)		5,086	(5,086)
Net effect	¢	**22,842**	**(22,842)**	¢	**31,533**	**(31,533)**

(Continues)

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

b) Derivative Assets and Liabilities Designated as Cash Flow Hedges

As of September 30, 2018, cash flows related to derivative financial instruments are shown below. Expected cash flows consider the projected flows of each derivative:

Millions Dollar		**Book Value**	**Expected Cash Flows**	**6 months or less**	**6-12 months**	**1-2 year**	**2-5 years**	**More than 5 years**
Cross currency swap								
Liabilities	¢	(4,106)	4,633	581	1,037	888	1,742	385
Cross currency swap		-	-	-	-	-	-	-
Liabilities								
Forward staring swap		2,476	3,504	439	784	1,227	966	87
Liabilities								
Plain vanilla swap		-		-	-	-	-	-
Liabilities								
Non delivery currency swap Tramo b-1		-	-	-	-	-	-	-
Liabilities		(1,684)	564	165	216	170	14	-
Non delivery currency swap Tramo a-1								
Liabilities		(381)	799	145	247	320	87	-
Non delivery currency swap 3 años								
Liabilities		(936)	2,042	522	999	522	-	-
Cupon swap 3 años								
Liabilities		387	(22)	3	(25)	-	-	-
Cupon swap 3 años								
Liabilities		(331)	663	332	332	-	-	-
Cupon swap 3 años								
Liabilities		(37)	104	52	52	-	-	-
Cupon swap 3 años								
Liabilities		316	57	39	18	-	-	-
Cupon swap 3 años								
Liabilities		(398)	434	217	217	-	-	-
Cupon swap 3 años								
Liabilities		(243)	228	106	121	-	-	-
Total		(4,939)	13,006	2,600	3,999	3,127	2,809	472

(Continues)

(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.

Millions of colones		Expected cash flows derived	less than 12 months	over 12 months
Forward staring swap	¢	1,066	667	399
Plain vanilla swap		90	90	-
Total	¢	1,156	757	399

Millions of colones		Expected cash flows derived	less than 12 months	over 12 months
Forward staring swap	¢	564	381	184
Plain vanilla swap		-	-	-
Total	¢	564	381	184

Millions of colones		Expected cash flows from liabilities	less than 12 months	over 12 months
BID-1931A/OC-CR	¢	44,712	8,129	36,583
BID-1931B/OC-CR		8,557	8,557	-
Total	¢	53,270	16,687	36,583

Millions of colones		Expected cash flows from liabilities	less than 12 months	over 12 months
BID-1931A/OC-CR	¢	37,449,000	8,322,000	29,127,000
Total	¢	37,449,000	8,322,000	29,127,000

(Continues)

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

The general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

Detail		PR003 Tranche A D091319		PFI-019 Dollar/colon Tranche A-1 E15-96556		PR004 Yens NEM120618ICE		PF-021 Yenes C34569		Dollar/colón three year C34812601207		PFI022 Dollar/colón three year C3489721003		PFI024 Dollar/colón three year C38910		PFI026 Dollar/colón three year C39164		PFI027 Dollar/colón three year C3489850286		PFI023 Dollar/colón three year C3489721052		PFI025 Dollar/colón three year C38912
Hedged debt:		BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3		Bonds 2043		BID-1908		BID-1908		Bonds 2021		Bonds 2021		Bonds 2043		Bonds 2043
Principal amount	USD	71.3	USD	71.3	JPY	4,389	JPY	4,474	USD	200	USD	50	USD	50	USD	100	USD	200	USD	50	USD	50
Hedged amount	USD	171.0	CRC	114	USD	8,170	USD	5,219	CRC	200	CRC	27,815	CRC	27,716	CRC	55,200	USD	110,850	CRC	27,815	CRC	27,716
Exchange rate	N/A		CRC	533.00	USD	91	USD	123	CRC	566.08	CRC	556	CRC	554.31	CRC	552	CRC	554.25	CRC	556	CRC	554
Hiring date		27/01/2009		18/09/2015		18/06/2012		03/12/2015		22/11/2016		23/11/2016		23/11/2016		09/12/2016		09/12/2016		23/11/2016		23/11/2016
Hedge starting date of first payment		14/01/2010		18/09/2015		20/10/2012		20/10/2015		15/11/2017		25/05/2017		25/05/2017		10/05/2017		10/11/2016		14/05/2017		14/05/2017
Hedge expriration date		14/07/2023		14/07/2023		20/04/2026		20/04/2026		15/11/2020		25/11/2019		25/11/2019		10/11/2019		10/11/2019		14/11/2019		14/11/2019
Term		14 years		7 years, o months and 5 days		14 years		10 years and 5 months		3 years		3 years		3 years		3 years		3 years		3 years		3 years
Base rate		Libor 6 months		3.23%		2.2%		2.2%		6.375%		Libor 6 months		Libor 6 months		6.95%		6.95%		6.375%		6.38
Spread over/under base rate		-		-		5.11%		5.01%		-		0.90%		0.90%		7.94%		7.72%		6.96%		7.29%
Fixed rate		3.63%		-		-		-		-		-		-		-		-		-		-
Total Fixed rate		6.86%		4.23%		5.11%		5.01%		7.190%		2.92%		3.05%		7.94%		7.72%		6.96%		7.29%
Strategy		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge
Hedged risk		Interest rate		Exchange rate Dollar/colón		Exchange rate Yen/dollar		Exchange rate Yen/dollar		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón
Hedge Type		Cash flow hedge		Cash flow hedge		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Cash flow hedge		Fair value hedge accounting
Hired instrument		Interest rate swap		Non deliverable currency swap		Cross currency swap		Cross currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap

(Continues)

(In millions of colones)

Capital Management

Article 17 of Chapter IV "Equity and Earnings" of the *Law to Create the Costa Rican Electricity Institute* (Law No. 449) dated April 8, 1949 states that *"ICE's financial policy will be to reinvest its net profit from the sale of electricity and from any other sources in financing and executing national electrification plans and promoting the electricity industry."*

The Government shall not receive any portion of that profit since ICE is not to be considered a productive source of revenue for the Costa Rican Internal Revenue Service. Instead, it is to use all means at its disposal to increase the production of electricity as a basic industry of 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.

Capital management aims at ensuring that capital and financial investments have the highest returns by adequately balancing the debt level and the capital invested, reducing risk.

In the fourth quarter of 2018, Grupo ICE's capital management remained unchanged and ICE was not subject to external capital requirements.

Grupo ICE's adjusted debt/equity ratio on the date of the consolidated statement of financial position is as follows:

Index Debt - Capital		Up to September 30, **2018**	Up to December 31, **2017**
Total liabilities	¢	3,556,583	3,251,480
(-) Cash and equivalent to cash		(323,313)	(188,420)
Debt, net		3,233,270	3,063,060
Total patrimony		2,805,065	2,782,793
Minus:			
Amount accumulated in patrimony in relation to coverage of cash flow		(20,615)	(16,267)
Capital ajusted		2,825,680	2,799,060
Index debt	¢	**1.145**	**1.095**

(Continues)

(In millions of colones)

Estimation of Potential Loss:

Pursuant to SUGEVAL's methodology, adjustments were made to the assessment of potential losses on Grupo ICE's investments; accordingly, a risk rating and write-off percentage is assigned to each investment based on the maturity of the instrument, as follows:

	International rating			
Term	Moody´s	Standard & Poor´s	Fitch	Weighting
Short term	-	A1+	F1+	0%
	P1	A1+	F1	1%
	P2	A2	F2	2.5%
	P3	A3	F3	5%
	-	B	B	7.5%
	C and other	C and other	C and other	10%
Long term	Aaa	AAA	AAA	0%
	Aa	AA	AAA	1%
	A	A	AAA	2.5%
	Baa	BBB	BBB	5%
	BA	BB	BB	7.5%
	B	B	B	9%
	Caa and other	CCC and other	CCC and other	10%

Local rating		
Term	rating	Weighting
Short term	1, 2, 3	7.5%
	otros	10%
Long term	AAA-A	7.5%
	BBB-B	9%
	CCC y otros	10%

Class	International rating		Local rating	
	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: BCCR investments, 0%; Government and Ministry of Finance, 0.5%; repurchase agreements are applied a counterparty rating; and unrated issues (classified in the "Other" category), 10%. Sovereign ratings and write-offs are applied to investments in US dollars in accordance with the tables above. The final result corresponds to the "potential loss”.

(Continues)

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

As of September 30, 2018, risk ratings reported for Grupo ICE are as follows:

Transmitter	ISIN	Instrument	Rate risk
BAC Bank San José, S.A.	CRBSJ00B1913	BSJ Bond	AAA (cri)
BAC Bank San José, S.A.	CRBSJ00B1921	BSJ Bond	AAA(cri)
BAC Bank San José, S.A.	CRBSJ00B1970	BSJ Bond	AAA(cri)
Central Bank of Costa Rica	CRBCCR0B4080	Monetary Stabilization Fixed Rate Bond	BB-
Central Bank of Costa Rica	CRBCCR0B4320	Repurchase	BB-
Central Bank of Costa Rica	CRBCCR0B4403	Monetary Stabilization Fixed Rate Bond	BB-
Central Bank of Costa Rica	CRBCCR0B4726	Monetary Stabilization Fixed Rate Bond	BB-
Central Bank of Costa Rica	CRBCCR0B4767	Monetary Stabilization Fixed Rate Bond	BB-
Central Bank of Costa Rica	CRBCCR0B4874	Monetary Stabilization Fixed Rate Bond	BB-
Central Bank of Costa Rica	CRBCCR0B4882	Repurchase	BB-
Central Bank of Costa Rica	CRBCCR0B4916	Repurchase	BB-
Central Bank of Costa Rica	CRBCCR0B4940	Repurchase	BB-
Central Bank of Costa Rica	CRBCCR0B4981	Repurchase	BB-
Bank Davivienda (Costa Rica) S.A.	CRBDAVIB0088	Davivienda Bond	AAA(cri)
Bank of Costa Rica	00BCR00E1715	Repurchase	AA+(cri)
Bank of Costa Rica	CRBCR00B3552	BCR Bond	AA+(cri)
Mortgage Bank of Housing -BANHVI-	CRBANVIB0094	Banhvi Bond	SCR AA+
International Bank of Costa Rica -Miami-	0NR0ICE00051	Overnight	BB+
International Bank of Costa Rica -Miami-	0NR0ICE00358	Overnight BID 2747	BB+
International Bank of Costa Rica -Miami-	0NR0ICE00689	Overnight BEI	BB+
Bank Lafise	00BLAFIE1708	Term Certificate of Deposit (global notes)	SCR2
Bank Lafise	00CATAYE8378	Term Certificate of Deposit (global notes)	SCR2
National Bank of Costa Rica	00BNCR0E3617	Repurchase	AA+(cri)
National Bank of Costa Rica	00BNCR0E3625	Repurchase	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1737	Repurchase	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1745	BNCR Bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1752	BNCR Bond	AA+(cri)
Popular Bank And Community Development	00BPDC0CHN93	Term Certificate of Deposit (global notes)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CHR16	Repurchase	(en blanco)
Popular Bank And Community Development	00BPDC0E0238	Repurchase	(en blanco)
Popular Bank And Community Development	00BPDC0E1194	Repurchase	(en blanco)
Popular Bank And Community Development	00BPDC0E8074	Repurchase	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B6954	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7168	BPDC Bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7275	BPDC Bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7309	BPDC Bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7325	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	CRBPDC0B7515	BPDC Bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7556	Repurchase	AA+(cri)
PRIVAL Bank,S.A. (Old BANSOL Solutions Bank)	00PRIVAE0500	Term Certificate of Deposit (global notes)	SCR2
Promerica Bank	CRBPROMB1359	Promerica Bond	SCR AA +
Scotiabank of Costa Rica, S.A.	CRSCOTIB1292	Scotiabank Bond	AAA(cri)
Trust Distinguished Fire Brigade	CRFTBCBB0044	FTBCB Bond	SCR AA
Trust Distinguished Fire Brigade	CRFTBCBB0051	FTBCB Bond	SCR AA
Trust Garabito	CRFPTG0B0039	Repurchase	SCR AA
Financial Desyfin	00FDESYE8650	Term Certificate of Deposit (global notes)	SCR2
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO Bond	SCR AAA
Government	CRBPDC0B6954	Property title	BB
Government	CRG0000B01H3	Property title	BB
Government	CRBPDC0B6954	Repurchase	BB
Government	CRG0000B01H3	Repurchase	BB
Government	CRG0000B11H2	Property title	BB
Government	CRG0000B16I9	Property title zero coupon (window)	BB

(Continues)

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

Transmitter	ISIN	Instrument	Rate risk
Government	CRG0000B20I1	Repurchase	BB
Government	CRG0000B21I9	Repurchase	BB
Government	CRG0000B25H2	Repurchase	BB
Government	CRG0000B27H8	Repurchase	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B36H9	Repurchase	BB
Government	CRG0000B43H5	Repurchase	BB
Government	CRG0000B48H4	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56H7	Repurchase	BB
Government	CRG0000B57H5	Property title	BB
Government	CRG0000B59G3	Repurchase	BB
Government	CRG0000B63H3	Repurchase	BB
Government	CRG0000B70G0	Repurchase	BB
Government	CRG0000B72G6	Property title	BB
Government	CRG0000B73G4	Repurchase	BB
Government	CRG0000B76H5	Property title real ajustable soberana	BB
Government	CRG0000B82H3	Repurchase	BB
Government	CRG0000B88H0	Repurchase	BB
Government	CRG0000B90G8	Repurchase	BB
Government	CRG0000B91G6	Repurchase	BB
Government	CRG0000B93G2	Repurchase	BB
Government	CRG0000B96G5	Property title	BB
Government	USP3699PAA59	Foreign debt bond costa rica	BB
Government	USP3699PGH49	Property title	BB
Government	USP3699PGJ05	Repurchase	BB
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2467	MADAP Bond	SCR AA
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2475	MADAP Bond	AA+(cri)
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2525	MADAP Bond	SCR AA+
La Nación S.A.	CRNACIOB0142	Bond La Nación S.A.	SCR AAA
La Nación S.A.	CRNACIOB0175	Bond La Nación S.A.	SCR AAA
Mutual Cartago of Savings and Loan	CRMUCAPB1458	MUCAP Bond	AA+(cri)
Mutual Cartago of Savings and Loan	CRMUCAPB1474	MUCAP Bond	AA+(cri)
Costa Rican Oil Refinery	CRRECOPB0012	Standard Recope Bonus	AAA (cri)
Costa Rican Oil Refinery	CRRECOPB0020	Standard Recope Bonus	AAA (cri)
Safi Bac san josé	SAJCPcFI	F.I. Bac San Jose Liquido C No Diversified	SCR AA+F2
Safi Bank of Costa Rica	BCRMX¢FI	F.I. Bcr Mixed Colones Not Diversified	SCR AAF2
Safi Bank of Costa Rica	FI-000000066	F.I. Bcr Mixed Dollars Non-Diversified	SCR AAF2
Safi National Bank of Costa Rica	BNASUPER$FI	F.I. Bn Superfund Dollars Not Diversified	F1+ (cri)
Safi National Bank of Costa Rica	BNASUPERcFI	F.I. Bn Superfund Colones Not Diversified	SCR AAF2
Safi Popular Bank	FI-000000006	F.I. Popular Money Market Colones (Non Diversified)	SCR AAF2
Safi National Insurance Institute	BACLACcFI	F.I. Non-Diversified INS- Liquidity C	SCR AAF 2
Safi National Insurance Institute	BACLAD$FI	F.I. Non-Diversified INS- Liquidity D	SCR AAF 2
The Bank of Nova Scotia (Costa Rica)	CRBNSCRB0021	Nova Bond scotiabank	AAA(cri)

(Continues)

(In millions of colones)

Nota 35. Contingent Assets and Liabilities

As of September 30, 2018, legal proceedings involving Grupo ICE are as follows:

Proceedings	Number of cases	Estimated amount of the claim	As of september 30, 2018	As of December 31, 2017
			Litigation provision	
Contingent assets - lawsuits filed by Grupo ICE:				
Ordinary Administrative	41	9,298	-	-
Other	137	744	-	-
Total contingent assets	**178**	**10,042**	**-**	**-**

Proceedings	Number of cases	Estimated amount of the claim	As of september 30, 2018	As of December 31, 2017
			Litigation provision	
Contingent liabilities - lawsuits filed against Grupo ICE:				
Administrative proceedings	125	824	49	-
Ordinary (Administrative)	36	33,907	1,217	578
Administrative and Civil Court of Finance (1)	11	13,955	61	71
Execution of judgment (Administrative)	6	43	43	43
Other	88	77,698	1,096	1,157
Total contingent liabilities	**266**	**126,427**	**2,466**	**1,849**
Less reclassification of non-current portion			**730**	**609**
Current			**1,736**	**1,240**

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 a third independent party, referred to as arbitrator, or an arbitral tribunal, who will be in charge of the dispute resolution. The arbitrator will be, in turn, limited to the agreements reached by the parties to issue the arbitrational award in accordance with the laws chosen by the parties, or even based on simple equity, if agreed.

b) Contentious: a judicial proceeding to review a conduct under the guardianship of the Contentious Jurisdiction. The Contentious-Administrative Jurisdiction is aimed at protecting the legal situations of every person, guarantee or reestablish the lawfulness of any conduct of the Public Administration subject to the Administrative law, and to

(Continues)

ear and resolve 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 Law, article 214 paragraph one, to ensure the best compliance with the purposes of the Government and with the subjective rights and legitimate interests of citizens in accordance with the legal system.

Large claims related to contingent assets and liabilities are as follows:

(1) The main proceedings before the Administrative and Civil Court of Finance are related to one of its subsidiaries:

i. Instalaciones Inabensa, S.A.- File No. 5-1194-163-CA: This case was initiated for the collection of penalties during the project for underground electrification of San Jose, for an estimated amount of ¢11.138. The plaintiff seeks the collection of claims and reimbursement of penalties, filed during the stage of execution of the aforementioned project.

ii. Ghella Spa Costa Rica-File No. 10-3471-1027-CA: This claim seeks the annulment of the limitations established in Addendum No. 1 of the Contract for design, construction, equipment, and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount is ¢21.047.

iii. Grupo Corporativo SARET: The plaintiff filed an early precautionary measure against CNFL for execution of the performance bond for collection of penalties. Furthermore, the plaintiff filed a formal claim for consequential damages, lost wages, and loss of opportunity. The estimated amount of the proceedings is ¢7.689.

These legal proceedings are against the subsidiary Compañía Nacional de Fuerza y Luz, S.A. This subsidiary has appealed and as of September 30, 2018, there are not sufficient evidence to establish a final resolution. Due to this uncertainty, the Management of this subsidiary has deemed it necessary to register any accumulations to cover possible losses that might derive from such resolution.

Al September 30, 2018, ICE´s Legal Department is processing 69 lawsuits for expropriations to enter into possession. There are also 35 lawsuits for forced expropriation to enter into possession and legalize the properties needed for the different works under development.

(Continues)

(In millions of colones)

Nota 36. Balances and Transactions with Related Parties

The balances and transactions with related parties are detailed as follows:

Business and Financial Transactions:
During the year, Grupo ICE performed the following business transactions with related parties:

		Sale of goods and services		Purchase of goods and services	
		For the year ended september 30,			
		2018	**2017**	**2018**	**2017**
Construction services:					
UNO PH Reventazón/Scotiabank/2013 Trust	¢	-	1,497	-	1,665
Other related parties		-	6	-	-
National Emergency Commission		505	-	-	-
Advisory services:					
CONAVI		-	775	-	1,077
MINAE-SENARA		-	660	-	1,767
Interest:					
Government entities		4,435	3,921	-	-
Autonomous institutions		864	-	-	-
State-owned financial entities		3,481	4,381	9,273	6,565
Other services:					
Government entities		4,687	1,268	1,159	186
Autonomous institutions		342	-	-	565
State-owned financial entities		-	-	42,018	39,122
Other related entities		2,885	1,745	641	444
Total	¢	**17,199**	**14,253**	**53,092**	**51,391**

(Continues)

(In millions of colones)

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 assets purchased the relationships between the parties.

The following balances receivable and payable were outstanding at the end of the period to be informed about:

		Receivable		Payable	
		Balances due from related parties		**Balances due to related parties**	
		30/09/2018	**31/12/2017**	**30/09/2018**	**31/12/2017**
Government entities	¢	6,192	5,149	120	-
Autonomous institutions		11,152	-	5,777	-
State-owned financial entities		-	-	1,623	-
Other related entities		-	-	3	100
Total	¢	**17,343**	**5,149**	**7,522**	**100**

The balances do not include expenses from public services (electricity, water, telecommunications, social security, and tax burdens), respectively.

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.

In addition, as of September 30, 2018, notes receivable on the long term remained with related autonomous entities for a total ¢253.474 (¢258.717 as of December 31, 2017 (restated).

(In millions of colones)

The following balances are related to financial investments and restricted-use funds placed in or by state-owned financial entities:

		As of September 30, 2018	As of December 31, 2017
Cash equivalents	¢	69,318	41,522
Held to maturity		118,775	109,420
Restricted funds		1,851	1,301
Total	¢	**189,944**	**152,242**

As of September 30, 2018, interest receivable from state-owned financial entities on securities amounts to a total of ¢3.013 (¢1.895 as of December 31, 2017).

As of September 30, 2018, there are investments in the interests of autonomous and non-governmental entities amounting to a total of ¢30.818 (¢30.686 in 2017) (see note 10).

Compensation of Management's Key Staff

The compensation of directors and other key members of management during the 2018 and 2017 periods was as follows:

		As of September 30, 2018	As of December 31, 2017
Short-term benefits	¢	4,800	6,552
Severance benefits		109	798
Post-employment benefits		1,240	782
Other long-term benefits		-	3
Total	¢	**6,149**	**8,135**

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.

(In millions of colones)

Nota 37. 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 Cable Visión de Costa Rica, S.A. (CVCRSA).

- The Electricity Segment includes the ICE-electricity sector and Compañía Nacional de Fuerza y Luz, S.A. (CNFL).

The information by segment is submitted to the highest authority in charge 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) exposed to risks and different 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. The information related to each segment is shown below.

(b) Products and services that generate income from the segments that need to be reported

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

(c) Income and Results by Segment

An analysis of the income and the results of Grupo ICE from the operations by segment to be informed is as follows:

		For the periods ended September 30,					
		Electricity		Telecommunications		Consolidated total	
Profit (loss) per segment		**2018**	**2017***	**2018**	**2017***	**2018**	**2017***
Income per segment	¢	614,454	565,488	429,646	439,787	1,044,100	1,005,275
Investment income		11,555	12,458	5,872	7,844	17,427	20,302
Finance costs		(134,872)	(117,558)	(12,411)	(9,066)	(147,283)	(126,624)
Foreign exchange differences, net		(33,022)	(50,827)	(2,146)	(4,316)	(35,168)	(55,143)
Income from investments in other companies		431	371	120	-	551	371
(Deficit) surplus, net		(76,550)	(70,128)	(12,117)	22,207	(88,667)	(47,921)

*** Restated. See notes 33.**

The income by segment as informed in the foregoing paragraphs accounts for the income generated by external clients

(Continues)

(In millions of colones)

The income of the segments is as follows:

- The income from service sales of the electricity segment to the telecommunications segment amounts to ¢5.045 for 2018 (¢4.605 in 2017).
- The income from service sales of the telecommunications segment to the electricity segment amounts to ¢1.820 for 2018 (¢1.681 in 2017).

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 financial income, other profits or losses, as well as the financial costs that cannot be allocated to a specific segment. This represents the measurement informed 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 September 30, 2018 and December 31, 2017.					
		Electricity		Telecommunications		Consolidated total	
Segment assets and liabilities		**2018**	**2017***	**2018**	**2017***	**2017**	**2016***
Assets	¢	5,006,267	4,779,498	1,355,381	1,254,775	6,361,648	6,034,273
Liabilities	¢	3,001,683	2,909,067	554,901	342,413	3,556,583	3,251,480

*** Restated. See notes 33.**

(Continues)

(In millions of colones)

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 informed 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 conductors 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, and the ABC Costing (activity-based costing) is used and approved by the Board of Directors.

(e) Other Information on the Segment

		Depreciation and amortization		Additions to non-current assets	
		Period ended September 30, 2018	**Year ended December 31, 2017***	**Period ended September 30, 2018**	**Year ended December 31, 2017***
Telecom Segment	¢	96,510	104,671	77,561	46,759
Electricity Segment		122,551	122,890	116,933	68,229
	¢	**219,061**	**227,561**	**194,494**	**114,988**

*** Restated. See notes 33.**

(f) Income from the Main Products and Services

The Group's income from the main products and services of the operations are as follows:

		Period ended September 30,	
		2018	**2017***
Telphony, data and internet services	¢	614,454	565,488
Electricity services		429,646	439,787
Total	**¢**	**1,044,100**	**1,005,275**

(Continues)

Nota 38. Subsequent Events

(a) Indefinite Suspension of Diquís Project

ICE determined that the Diquís Project is no longer part of the optimal plan for Expansion of Generation; therefore, it will be written off in Works in Progress, and costs incurred until now will affect the results of Grupo ICE in ¢88.174. The adjustment is estimated to be registered supplemental operating costs in 2018. (See note 8)