CONSOLIDATED FINANCIAL STATEMENTS

Instituto Costarricense de Electricidad and Subsidiaries

ICE GROUP
ICE
CNFL
RACSA
CRICSA
Gestión Cobro

September 2020

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

Consolidated Statement of Financial Position
(In millions of colones)

September 30, 2020
(With corresponding restated figures for 2019 and 2018)

Assets	Note		2020	2019 *(Restated)**	2018 *(Restated)**
Non-current assets:					
Property, plant and equipment, net	8	¢	5,440,957	5,557,134	5,641,277
Intangible assets, net	9		99,763	111,168	91,684
Investment propertyd			413	-	-
Equity investments	10		22,832	25,314	21,339
Notes and other accounts receivable, net	11		2,192	2,158	2,994
Investments in financial instruments	12		50,214	73,869	122,529
Guarantee and Savings Fund	13		230,065	222,645	222,212
Total non-current assets			5,846,436	5,992,288	6,102,034
Current assets:					
Inventories, net	14		95,066	86,687	112,366
Notes and other accounts receivable, net	11		69,213	66,586	93,916
Temporary investments	15		104,931	120,316	53,486
Restricted funds			2,075	1,978	1,017
Trade receivables, net	16		186,443	146,962	120,518
Prepaid expenses	17		12,752	16,975	42,585
Other assets			4,199	7,135	79
Cash and cash equivalents	18		330,294	170,006	148,886
Total current assets			804,973	616,646	572,853
Total assets		¢	6,651,409	6,608,934	6,674,887
Liabilities and equity					
Equity:					
Paid-in capital		¢	155	155	155
Other reserves			16,789	16,116	14,750
Restricted retained earnings from capitalization of shares in subsidiary			62,380	62,380	62,380
Actuarial losses			(12,213)	(12,213)	22,620
Income from investments in other companies			(65)	272	66
Valuation of non-derivative financial instruments and hedges			(12,735)	(3,813)	(38,786)
Retained earnings			310,826	310,109	318,559
Development reserve			2,408,865	2,406,750	2,266,978
Déficit, net			(81,131)	-	-
Equity attributable to owners of ICE			2,692,871	2,779,756	2,646,722
Non-controlling interests			5,586	5,585	5,739
Net equity		¢	2,698,457	2,785,341	2,652,461
Liabilities:					
Non-current liabilities:					
Securities payable	19(a)		1,087,493	1,090,118	1,211,765
Loans payable	19(b)		898,807	899,030	887,060
Finance lease obligations	19(c)		918,554	908,195	1,010,895
Employee benefits	20		78,415	72,037	42,657
Accounts payable	21		7,005	6,845	7,605
Prepaid income	22		8,377	8,959	6,495
Guarantee and Savings Fund	13		230,065	222,645	222,212
Deferred tax liability, net			95,918	100,319	105,894
Other provisions			19	413	347
Other liabilities	23		56,815	56,968	53,967
Total non-current liabilities			3,381,468	3,365,529	3,548,897
Current liabilities:					
Securities payable	19(a)		115,437	63,026	19,482
Loans payable	19(b)		92,715	87,129	93,133
Finance lease obligations	19(c)		91,074	78,916	88,029
Employee benefits	20		5,013	8,023	7,291
Accounts payable	21		138,988	122,872	163,606
Prepaid income	22		25,826	23,628	28,164
Accrued employer obligations payable	24		62,466	48,487	46,498
Accrued interest payable			29,047	14,713	17,811
Other provisions			2,521	1,443	2,860
Other liabilities	23		8,397	9,827	6,655
Total current liabilities		¢	571,484	458,064	473,529
Total liabilities			3,952,952	3,823,594	4,022,426
Total liabilities and equity		¢	6,651,409	6,608,934	6,674,887
Memoranda necounts	25		135,308	191,452	186,256

Preliminary translation

(*) See Notes 30 and 31.

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

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JEIMY SANCHEZ UMAÑA (FIRMA) Firmado digitalmente por JEIMY SANCHEZ UMAÑA (FIRMA) Fecha: 2021.03.03 10:26:43 -06'00'

Juan Carlos Pacheco Romero
Head of the Finance Department

Hazel Cepeda Hodgson
General Manager

Jeimy Sánchez Umaña
Accounting Process Coordinator

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

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

For the nine month period enden September 30, 2020
(With corresponding figures for 2019)

	Note		2020	2019 *(Restated)* *
Operating income:				
Electricity services		¢	609,642	645,394
Telecom services			431,618	451,047
Total operating income	26		1,041,260	1,096,441
Operating costs:				
Operation and maintenance			362,689	370,810
Operation and maintenance of leased equipment			61,279	79,894
Supplemental services and purchases			90,483	118,215
Production management			62,576	51,794
Technical service center			338	(904)
Total operating costs	27		577,366	619,808
Gross surplus			463,894	476,633
Other income	28		37,843	26,186
Operating expenses:				
Administrative			102,665	100,449
Selling			139,963	194,309
Preinvestment studies			18,524	21,614
Supplemental			2,636	8,444
Loss on impairment of trade receivables			7,740	3,873
Other expenses			23,515	26,784
Total operating expenses	27		295,043	355,473
Operating surplus			206,693	147,345
Finance income and finance costs:	29			
Investment income			14,854	21,452
Finance costs			(187,196)	(175,388)
Foreign exchange differences, net			(119,689)	97,435
Income from investments in other companies			484	487
Total finance income and finance costs			(291,547)	(56,014)
Net (deficit) surplus before income tax			(84,853)	91,331
Income tax:				
Current	32		(584)	(394)
Deferred			4,307	199
Total income tax			3,722	(195)
Net surplus (deficit), net		¢	(81,131)	91,136
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Effect of actuarial (gains) losses for the year			-	(19)
Effect of eliminations of reciprocal transactions			2,657	4,923
Subtotal			2,657	4,904
Items that are or may be reclassified subsequently to profit or loss:				
Loss (gain) on fair value of cash flow hedges			(9,264)	26,850
Subtotal			(9,264)	26,850
Other comprehensive income			(6,607)	31,754
Total comprehensive income for the year		¢	(87,738)	122,890
Income for the year attributable to:				
Owners of ICE			(81,167)	90,709
Non-controlling interests			36	427
Total		¢	(81,131)	91,136
Total comprehensive income for the year attributable to:				
Owners of ICE			(87,738)	122,890
Total		¢	(87,738)	122,890

Preliminary translation

*See Notes 30 and 31.

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

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

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

For the year ended on September 30, 2020
(With figures from the 2019 fiscal year)

			Other reserves													
	Note	Capital contributions	Legal reserve	Project development reserve	Capital reserve	Total	Restricted earnings due to the capitalization of ownership interest in subsidiaries	Actuarial gains and (losses)	Results of investments in other companies	Valuation of non-derivative financial instruments and hedges	Retained earnings	Development reserve	Net deficit	Equity attributable to the owner of the Institute	Non-controlling interest	Net equity
Balances as of January 01, 2019, previously reported		¢ 155	14,679	71	-	14,750	62,380	22,620	66	(38,786)	318,559	2,248,883	-	2,628,627	5,739	2,634,366
Deferral policy adjustment	31	-	-	-	-	-	-	-	-	-	-	(8,186)		(8,186)	-	(8,186)
Initial application of IFRS 16 adjustment	31											19,828		19,828		19,828
Effect of corrections of mistakes during the fiscal year adjustment	30	-	-	-	-	-	-	-	-	-	-	6,453	-	6,453	-	6,453
Balances as of January 01, 2019, restated		155	14,679	71	-	14,750	62,380	22,620	66	(38,786)	318,559	2,266,978	-	2,646,722	5,739	2,652,461
Comprehensive income for the year:																
Surplus for the year		-	-	-	-	-	-	-	-	-	(15,464)	132,319	-	116,855	(251)	116,604
Other comprehensive income for the year:						-										
Effect of eliminating related party transactions		-	-	-	-	-	-	-	-	-	1,163	6,413	-	7,576	175	7,751
Effect of actuarial gains during the year		-	-	-	-	-	-	(34,833)	-	-	-	-	-	(34,833)	(88)	(34,921)
Net earnings from the fair value of cash flow hedging instruments		-	-	-	-	-	-	-	-	33,554	-	-	-	33,554	-	33,554
Losses in investments measured at fair value with changes recognized in equity (ORI)		-	-	-	-	-	-	-	-	1,419	-	-	-	1,419	-	1,419
Transfer due to Assignment of Rights and Obligations of Subsidiary		-	-	-	-	-	-	-	-	-	6,274	(9,360)	-	(3,086)	-	(3,086)
Fair value valuation of investments in associates E.P.R.		-	-	-	-	-	-	-	342	-	-	-	-	342	-	342
Total other comprehensive income for the year		-	-	-	-	-	-	(34,833)	342	34,973	(8,027)	129,372	-	121,827	(164)	121,663
Comprehensive income for the year:																
Results of investments in other companies		-	-	-	-	-	-	-	(136)	-	307	-		171	-	171
Allocation to legal reserve		-	720	-	646	1,366	-	-	-	-	(730)	-		636	10	646
Transfer to capital reserve		-	(12,071)	-	12,071	-	-	-	-	-	-	-		-	-	-
Total comprehensive income for the year:		-	(11,351)	-	12,717	1,366	-	-	(136)	-	(423)	-	-	807	10	817
Balances as of December 31, 2019, previously reported		¢ 155	3,328	71	12,717	16,116	62,380	(12,213)	272	(3,813)	310,109	2,396,350	-	2,769,356	5,585	2,774,941
Deferral policy, implementation of IFRS 16, and correction of mistakes during the fiscal year adjustment	30 and 31	-	-	-	-	-	-	-	-	-	-	10,399	-	10,399	-	10,399
Balances as of January 01, 2019, restated		155	3,328	71	12,717	16,116	62,380	(12,213)	272	(3,813)	310,109	2,406,750	-	2,779,756	5,585	2,785,341
Comprehensive income for the year:																
Deficit for the year		-	-	-	-	-	-	-	-	-	(36)	-	(81,131)	(81,167)	36	(81,131)
Other comprehensive income for the year:																
Effect of variations due to eliminating related party transactions		-	-	-	-	-	-	-	-	-	541	2,116	-	2,657	-	2,657
Net loss from the fair value of cash flow hedging instruments		-	-	-	-	-	-	-	-	(9,264)	-	-	-	(9,264)	-	(9,264)
Fair value valuation of investments in associates E.P.R.		-	-	-	-		-	-	(342)	342	-	-	-	-	-	-
Total other comprehensive income for the year		-	-	-	-	-	-	-	(342)	(8,922)	505	2,116	(81,131)	(87,774)	36	(87,738)
Comprehensive income for the year:																
Results of investments in other companies		-	-	-	-	-	-	-	5	-	-	-	-	5	-	5
Allocation to legal reserve		-	-	-	674	674	-	-	-	-	-	-	-	674	-	674
Effect of variations in non-controlling interest		-	-	-	-	-	-	-	-	-	36	-	-	36	(36)	-
Changes during the year		-	-	-	-	-	-	-	-	-	176	-	-	176	-	176
Total comprehensive income for the year:		-	-	-	674	674	-	-	5	-	212	-	-	891	(36)	855
Balances as of September 30, 2020		¢ 155	3,328	71	13,391	16,789	62,380	(12,213)	(65)	(12,735)	310,826	2,408,865	(81,131)	2,692,871	5,586	2,698,457

The notes set out on pages 1 to 185 form an integral part of these consolidated financial statements

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Hazel Cepeda Hodgson
General Manager

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Jeimy Sánchez Umaña
Accounting Process Coordinator

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

Consolidated Statement of Cash Flows
(In millions of colones)

For the nine months September 30, 2020
(Whith corresponding figures for 2019)

	Note		2020	2019 *(Restated)**
Cash flows from operating activites:				
(Deficit) Profit for the year		¢	(81,131)	91,136
Adjustments for:				
Depreciation	8		240,068	229,992
Finance costs			186,197	167,729
Severance benefits	20		14,081	14,947
Statutory Christmas bonus	24		13,579	13,359
Back-to-school bonus	24		13,055	13,716
Accrued vacation	24		16,690	14,323
Loss on impairment of trade receivables			7,510	4,233
Allowance for valuation of inventory	14		(445)	7,432
Expense on disposal of assets	8 y 9		7,199	8,240
Expense on disposal of contruction work in progress	8		2,319	8,617
Absorption of amortizable and intangible items	9		20,401	16,668
Net realizable value			670	(1,428)
Provision for mobile terminals			219	1,465
Foreign exchange differences	18 y 19 (d)		132,199	(120,863)
Amortized cost			3,203	(12,282)
Income tax			(4,307)	(195)
Loss on valuation of financial instruments			(7,620)	18,386
Earned interests			(27,966)	(12,259)
Other non-effective items			149	-
			536,069	463,216
Changes in:				
Trade receivables and other accounts receivable			(32,096)	(56,394)
Inventories			(7,844)	16,713
Other assets			11,713	25,234
Accounts payable			16,276	32,622
Severance benefits			(12,221)	(8,935)
Income received in advance			1,616	(2,823)
Ligation and terminal provisions			-	(108)
Employer obligations			(45,544)	(42,832)
Deferred income tax			(94)	(7,697)
Other liabilities			(2,086)	6,254
Other reserves			336	-
Cash flows from operating activities			466,124	425,249
Interest paid			(172,993)	(161,700)
Interest received			14,172	11,874
Net cash from operating activities			307,304	275,423
Cash flows from investing activities				
Investments			2,482	1,719
Increase-term investments			(7,662)	(15,447)
Maturity of long-term investments			30,482	45,474
Additions to property, plant and equipment			(78,031)	(157,116)
Increase in intangible assets			(8,277)	(16,813)
			(413)	-
Increase in temporary investments			(78,240)	(108,779)
Maturity in temporary investments			93,366	55,151
Net cash used in investing activities			(46,295)	(195,811)
Cash flows from financing activities:				
Amortization of securities payable	19 (d)		-	(20,255)
Increase in loans payable	19 (d)		38,220	136,633
Amortization of loans payable	19 (d)		(78,829)	(70,261)
Amortization of finance leases	19 (d)		(58,829)	(55,373)
Net cash (used) in financing activities			(99,438)	(9,257)
Net decrease in cash and cash equivalents			161,571	70,355
Cash and cash equivalents at beginning of year	18		170,006	148,886
Effect of movements in exchance rates on cash held	18 y 19 (d)		(1,283)	3,724
Cash and cash equivalents at end of year	18	¢	330,294	222,966

Preliminary translation.
The notes on pages 1 to 198 are an integral part of these consolidated financial statements.

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Juan Carlos Pacheco Romero
Head of the Finance Department

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Hazel Cepeda Hodgson
General Manager

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Jeimy Sánchez Umaña
Accounting Process Coordinator

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

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

Grupo ICE is a group of state-owned companies that includes the *Instituto Costarricense de Electricidad* (the parent and controlling entity) and its subsidiaries, *Compañía Nacional de Fuerza y Luz, S.A. (CNFL), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA), Cable Visión de Costa Rica, S.A. (CVCR) until October 31, 2019,* and *Gestión de Cobro Grupo ICE, S.A.,* all which are organized under Costa Rican laws. ICE is also the parent of other wholly-owned entities that are not operating as of September 30, 2020.

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

Mobile telephony (prepaid and postpaid voice and data), fixed telephony (including dedicated lines), internet access, and public and international telephony services are all regulated by the Superintendency of Telecommunications [SUTEL, its Spanish acronym], while electric power services are directly regulated by the Public Services Regulation Authority [ARESEP, its Spanish acronym].

The following is a description of the main activities of the group's subsidiaries:

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

The *Compañía Nacional de Fuerza y Luz, S.A.* (from here on out referred to as "CNFL", its Spanish acronym), was organized under Act number 21, dated April 8, 1941. Its main activity is the distribution of electric power in the metropolitan area of San José, as well as some neighboring counties of the provinces of Alajuela, Heredia, and Cartago. CNFL has issued a series of debt

(Continued)

securities in domestic currency and is therefore subject to the regulations that the CONASSIF [Spanish acronym for the "National Supervising Council of the Financial System"] and the SUGEVAL [Spanish acronym for the "General Superintendency of Securities"] establish.

- *Radiográfica Costarricense, S.A.*

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

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

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

- *Cable Visión de Costa Rica*

Cable Visión de Costa Rica (from here on out referred to as "CVCR") was created on January 19, 2001, which was acquired by the Costa Rican Institute of Electricity on December 05, 2013. Its main objective is to provide cable television services, although internet services and digital television services were subsequently added to its lines of business.

According to the minutes of the ordinary meeting held by the Board of Directors of Grupo ICE on January 14, 2019, CVCR assigned its rights and obligations to ICE in order to strengthen its offering and guarantee the continuity and quality of telecommunication and internet services provided by the cable company. The effective date of this assignment is September 01, 2019, and, therefore, as of that date, CVCR's rights and obligations shall be absorbed by the ICE (parent) to close the 2019 period.

As of September 30, 2020, Cable Visión de Costa Rica (CVCR) is a company that registers no commercial activity.

- *Gestión de Cobro Grupo ICE, S.A.*

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

The activities of ICE and its subsidiaries are also regulated by the Office of the General Comptroller of the Republic, the General Superintendency of Securities (SUGEVAL), the *Bolsa Nacional de Valores de Costa Rica, S.A.* (the National Stock Exchange), the Securities Market

Regulating Act, the General Directorate of National Accounting of the Ministry of Finance, and the Ministry of the Environment and Energy [MINAE, its Spanish acronym].

Capital composition

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

- Government revenue that is legally allocated and granted to ICE;
- The fees that the State acquired from the Municipality of San José under the *Contrato de Tranvía* [the "Tram Agreement", in English].
- Any other property that the State transfers to ICE.
- The country's hydraulic resources that have been or that are declared National Reserves, as well as all retained earnings stemming from any of the aforementioned.

Note 2. Basis of accounting

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). Note 7 describes the most significant accounting policies of the company.

Consolidated financial statements were authorized for issue by the Management of Grupo ICE on Tuesday, December 15, 2020.

Note 3. Basis of measurement

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

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

(Continued)

Note 4. Functional and presentation currency

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

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

Note 5. Use of judgments and estimates

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

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

(i) *Judgments*

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

- Note 8 (iii) - Costs of loans
- Note 27 - Term of lease: if the Group has reasonable assurance that it will exercise extension options.
- Note 33 - Management of institutional financial risk

(ii) *Assumptions and uncertainties in estimates*

The information on assumptions and uncertainties related to estimates as of September 30, 2020 that entail a significant risk of resulting in a material adjustment in the next financial year are included in the following notes:

- Note 14 - Measurement of estimates for obsolete inventory
- Notes 11 and 16 - Measurement of estimated credit losses expected by commercial debtors and assets of the agreement: key assumptions to determine the weighted average loss rate.
- Note 20 - Measurement of obligations for defined benefits - key actuarial assumptions.
  Note 34 - Recognition and measurement of contingencies and provisions - key assumptions related to the probability and magnitude of a disbursement of financial resources

(iii) *Measurement of fair values*

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

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

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

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

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

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

Note 6. Changes to significant accounting policies

Gradual implementation of IFRS

As of the date of these consolidated financial statements, ICE has bridged all of its gaps regarding IFRS implementation.

This process to gradually implement the IFRS, which has been ongoing from 2016 to date, is detailed below:

Reference standard	Name of standard	Start of implementation
IAS 8	Accounting policies, changes in accounting estimates and misstatements	2016
IAS 16	Property, Plant, and Equipment	2016
IAS 19	Employee benefits	2016
IAS 21	Effects of Changes in Foreign Exchange Rates	2016

(Continued)

(in millions of colones)

IAS 24	Related Party Disclosures	2016
IAS 36	Impairment of assets	2016
IAS 37	Provisions, contingent liabilities, and contingent liabilities	2016
IFRS 8	Operating Segments	2016
IAS 1	Presentation of Financial Statements	2017
IAS 2	Inventories	2017
IAS 7	Statement of cash flows	2017
IAS 10	Events after the reporting period	2017
IAS 18	Revenue recognition	2017
IAS 23	Borrowing costs	2017
IAS 28	Investments in associates and joint ventures (not related to trusts)	2017
IAS 38	Intangible assets	2017
IFRS 3	Business combinations	2017
IFRS 7	Financial Instruments: Disclosures	2017
IFRS 11	Joint arrangements (not related to trusts)	2017
IFRS 13	Measurement of fair values	2017
IFRS 9	Financial instruments:	2019
IFRS 15	Revenue from contracts with customers (b).	2019 & 2020
IFRS 10	Consolidated Financial Statements	2020
IFRS 11	Joint Arrangements (related to leases with trusts)	2020
IFRS 16	Leases (a).	2020

(a) <u>Leases (IFRS 16):</u>

The ICE has applied IFRS 16 in relation to lease agreements valid as of January 01, 2019. The Institute chose the modified retrospective approach, according to which an asset is recognized as a right-of-use asset and a lease liability of equal value. The lease liability is adjusted to reflect the value of lease payments and that are related to that lease that is recognized in the statement of financial position immediately before the date of initial application.

The changes in accounting policies are described below.

Policy applicable to agreements valid as of January 1, 2019

On the effective date of an agreement, the ICE assesses whether the agreement is or contains a lease. An agreement is or contains a lease if it transmits a right to control the use of a certain asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to use an asset, the Institute uses the lease definition included in IFRS 16.

Definition of a lease

IFRS 16 introduces a single lessee accounting model. The lessee recognizes a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Recognition exceptions exist for short-term leases and for leases of low-asset values.

The IFRS 16 replaces the IAS 17 (Leases) guidelines on existing lease, the IFRIC 4 (Determining whether an arrangement contains a lease), the SIC 15 (Operating Leases - Incentives), and the SIC 27 (Evaluating the substance of transactions involving the legal form of a lease).

Before this, the ICE used to classify leases as operating or financial leases using the Accounting Policies Manual valid at the time of their negotiation. At the moment of the transition, leases and lease liabilities have been measured at their fair value or at the present value of the payments for future leases, discounted using a discount rate defined with the criteria of an expert, in the case of low-value leases, according to the type of agreement (related with the real estate or commercial sector); and in the case of high-value leases, the implicit rate or otherwise the incremental rate, whichever is available. Right-of-use assets are measured using a value equal to the lease liability, and this value is adjusted using the value of any lease payment made in advance or that is accrued.

The ICE applied the following practical solutions when applying IFRS 16:

- Right-of-use assets and liabilities which term runs in 12 months or less, as of the date of initial application, were excluded from recognition, based on what the standard states.
- Right-of-use assets and liabilities for those lease assets that have a low-value underlying asset were excluded from recognition, based on what the standard states. A low-value asset is one that has a value of $10,000 dollars, or its equivalent in colones, at the time of the transaction.
- Direct initial costs (if any) are taken into account in the measurement of the right-of-use asset on the date of initial application.

Impact on financial statements

i. Impacts on the transition

During the transition to IFRS 16, the ICE recognized right-of-use assets and liabilities for the following additional leases:

	January 01, 2019 (in millions of colones)

(in millions of colones)

Right-of-use assets (high-value leases, BOT, and low-value leases like offices in buildings, stores in malls, etc.)	₡ 617.931
Lease obligations	₡590.678

The difference between a right-of-use asset and a lease obligation derives mainly from the accumulated (accrued) payments made under those agreements, as the depreciation of high-value leases runs for a term equal to the useful life of similar assets of the Institute, even though the obligation is paid during the term of the agreement.

Upon measuring the new lease liabilities, the rate applicable to high-value leases and BOT, both in dollars, ranges from 4.9% and 23.14%, and for low-value leases, from 8.70% to 9.13% in dollars, and from 14.53% to 16.71% in colones.

(b) <u>Revenue from contracts with customers. IFRS 15:</u>

The ICE has initially applied in the Telecommunications business, the recognition and measurement rules applicable to revenue from contracts with customers established in IFRS 15.

IFRS 15 establishes a complete conceptual framework to determine if revenue from contracts with customers should be recognized, when these are recognized, and what amount is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. Under IFRS 15, revenue is recognized when the client gains control of the goods or services. Determining the opportunity of the control transfer, at a certain moment or throughout time, requires judgment.

As a result of the implementation of IFRS 15 guidelines in the Telecommunications business, and the low material impact of the effects, these were not included in the recognition of revenue from contracts with customers of the year ended on December 31, 2019, as starting on 2020, a significant commercial strategy shift took place, and now performance obligations are satisfied separately (service and good). Therefore, the information of the 2018 and 2019 fiscal years has not been restated in terms of revenue, that is, it still shows as it had been previously reported under IAS 18, IAS 11, and the related interpretations, as IFRS 15 did not have significant impact on the accounting policies to recognize revenue from the Telecommunications Business.

(Continued)

Impact on financial statements

i. Impacts on the transition

During the transition to IFRS 15 of the telecommunications business, the financial statements of previous periods were not retrospectively affected.

(c) <u>Prepaid expense - deferred terminals</u>

The ICE includes as a marketing expense for the period, those inventories or devices that are sold or the property of which is transferred in the same period in which the corresponding revenue from customers is recognized.

The ICE previously recognized as prepaid expenses all of the mobile terminals that it sold, gave away or subsidized. These expenses were deferred to the statement of profit or loss throughout the term of the related plan that had been sold.

Impact on financial statements

The ICE had an impact in the accumulated development reserve, as of January 01, 2019, of ₡34,619 million, as a result of mobile terminals sold in 2017 and 2018 that appeared as prepaid expenses in the statement of financial position of ICE.

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

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

(a) <u>Consolidation policies</u>

(i) <u>Business consolidation</u>

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

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

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

(Continued)

(in millions of colones)

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

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

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

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

(ii) *Subsidiaries*

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

		Ownership interest	
		As of September 30,	
Subsidiaries	**Country**	**2020**	**2019**
Compañía Nacional de Fuerza y Luz S.A. (CNFL)	Costa Rica	98.6%	98.6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100.0%	100.0%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100.0%	100.0%
Cable Visión de Costa Rica,(CVCR)	Costa Rica	100.0%	100.0%
Gestión de Cobro Grupo ICE, S.A.	Costa Rica	100.0%	100.0%

(Continued)

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

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

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

(iv) *Investments in affiliates and joint ventures*

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

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

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

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

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

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

(Continued)

(b) General recording policies

(i) *Basic principles*

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

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

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

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

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

(ii) Foreign currency transactions

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

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

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

Grupo ICE shall change its policies only if:

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

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

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

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

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

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

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

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

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

(Continued)

(c) Financial instruments:

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

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

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

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

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

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

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

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

Non-derivative financial assets are measured as follows:

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

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

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

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

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

Financial assets - assessment of business model

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

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

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

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

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

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

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

- Contingent facts that would change the cash flow sums or schedule;
- Terms that could adjust the ratio of the contractual coupon, including variable rates;

(Continued)

- Prepayment and term extension conditions; and
- Terms that limit the right of Grupo ICE to the cash flows that come from specific assets (for example, non-recourse terms).

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

Financial liabilities - classification, subsequent measurement and profit or loss

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

Value impairment

Non-derivative financial assets:

Financial instruments and assets under contract

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

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

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

(Continued)

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

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

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

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

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

Grupo ICE considers that a financial asset is defaulting when:

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

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

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

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

Measurement of expected credit losses

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

Financial assets with credit impairment

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

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

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

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

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

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

Derecognition

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

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Derivative financial instruments - hedge accounting

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

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

Fair value hedges:

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

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

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

Cash flow hedges:

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

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

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

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

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

(d) Policies for non-current assets

(i) Property, Plant, and Equipment

Operating assets and other operating assets

Recognition and measurement

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

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

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

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

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

Right-of-use assets

Recognition and measurement

Grupo ICE as lessee

On the effective date or on the date of amendment of the agreement that contains a lease element, Grupo ICE distributes the consideration in the agreement to each component of the lease, using the basis of their relative independent price. However, in relation to property leases, Grupo ICE has chosen to separate those elements that are not lease related and to account for lease elements as right-of-use assets and the other, non-lease elements, in the profit or loss statement.

Grupo ICE recognizes a right-of-use asset and a lease liability on the effective date of the lease. The right-of-use asset is measured initially at cost, which includes the initial amount of the lease liability adjusted to reflect the lease payments made before or as of the effective date, plus any direct initial cost incurred and an estimate of the costs to be incurred to dismantle and eliminate the underlying asset or the place where this is located, less any lease incentives received.

If Grupo ICE incurs on an obligation arising out of the costs to dismantle and remove a leased asset, restore the place where this is located, or restore the underlying asset to bring it back to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37 has to be recognized. To the extent that costs relate to the right-of-use asset, the costs are included in the related right-of-use asset, unless these costs are incurred to generate inventories.

The Grupo ICE applies IAS 36 to determine whether a right-of-use asset is impaired, and accounts for any identified impairment loss in accordance with what the "Property, plant and equipment" policy describes.

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

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

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

Grupo ICE as lessor

The leases under which Grupo ICE acts as a lessor, if any, are classified as financial or operating leases. When the terms of the agreement transfer substantially all of the risks and benefits of the property to the lessee, then the agreement is classified as a financial lease. All other agreements are classified as operating leases.

The revenue from operating leases is recognized in the statement of profit or loss during the term of the lease.

Any pending financial lease amounts, if any, are recognized as lease receivables in the amount of the net investments in the leases. Financial lease revenue is recognized in fiscal years in a way that reflects a constant periodic return rate over the net, open investment in relation to the leases.

<u>*Policies applicable before January 01, 2019 for assets acquired under lease*</u>

For agreements executed before January 01, 2019, the ICE determined whether the agreement was or included a lease based on the contractual assessment thereof and of the policies contained in the Accounting Policies Manual at the time of execution of the agreement. These policies essentially stated the following:

- Agreements that cannot be canceled and that meet at least one of these four additional conditions are classified as financial leases, otherwise they are classified as operating leases:
  1. That they transfer the ownership of the asset to the lessee;
  2. That they contain a purchase option at a special price, i.e., a special price is a price which value when the option is executed is less than the carrying value of the asset.
  3. That the duration of the lease is equal to or greater than 75% of the estimated useful life of the leased asset.
  4. That the current value of the minimum lease payments for the lessee, excluding execution costs, is equal to or greater than 90% of the value of the leased asset.

(i) *As a Lessee*

In the comparative period, acting as lessee, the ICE classified as financial leases those that were contractually negotiated as such, for which purpose it recognized the leased assets as the fair value of the asset, as this one could be reasonably determined.

Assets held under other leases were classified as operating leases and are not recognized in the statement of financial position of ICE. Payments made under operating leases are recognized in the statement of profit or loss throughout the term of the lease.

(i) *As a Lessor*

As of January 01, 2019, the ICE is not participating as Lessor under any operating or financial leases.

Depreciation

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

Right-of-use assets are depreciated using the straight line method as of the effective date and until the last day of the lease, unless the lease transfers the ownership of the underlying asset to Grupo ICE at the end of the term of the lease or when the cost of the right-of-use asset reflects that the Institute will execute a purchase option. In these cases, the right-of-use asset will be depreciated throughout the useful life of the underlying asset, which is determined using the same basis that is used for properties and equipment that the Institute owns. In addition, the right-of-use asset is periodically reduced to reflect impairment losses, if any.

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

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

- The estimated time period during which the depreciable asset will be used for production purposes;

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

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

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

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

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

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

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

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

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

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

<u>*Work in progress*</u>

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

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

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

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

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

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

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

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

Investment inventories

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

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

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

(ii) *Intangible assets*

Recognition and measurement

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

Intangible assets established under this policy pertain to:

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

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

Costs of stations that are built by Grupo ICE are included as part of the rights of use of submarine capabilities with the purpose of achieving the technical and infrastructure conditions to

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interconnect submarine cables, and these are amortized over the term of the agreement as of the date such infrastructure starts operating.

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

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

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

- research stage; and
- development stage.

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

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

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

<u>Subsequent disbursements</u>

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

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

Amortization

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

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

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

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

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

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

(iii) *Impairment of non-financial assets*

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

Grupo ICE records impairment of cash generating units (CGU) when their book value exceeds their recoverable value. In these cases, Grupo ICE will adjust the valuation of the asset or assets

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that make up the CGU up to their recoverable value (without decreasing the book value under its value in use or zero, whichever is greater), recording an impairment loss.

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

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

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

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

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

- Impairment losses to reduce the book value of the assets that comprise the cash generating unit (or group of units) shall be distributed in the following order:
  (i) First off, the book value of any goodwill distributed to the cash generating unit (or group of units) shall be reduced; and
  (ii) then, the book value of the other assets of the unit (or group of units), starting with the operating assets of each CGU and ending with the common (corporate) assets.

- The impairment loss amount shall be distributed among the assets of the CGU according to the pattern that best adjusts to the financial reality of the assets. If no specific pattern is identified, it shall be prorated among the assets of the unit (group of units).

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

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

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

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

Subsidiaries

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

Loss of control

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

Other equity investments

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

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

(v) *Notes receivable and other accounts receivable*

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

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

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

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

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(vi) *Investments in financial instruments*

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

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

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

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

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

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

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

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

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

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

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

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

(e) <u>Policies for current assets</u>

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

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

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

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

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

Inventories acquired for sale shall be measured at the lesser of their cost or net realizable value. The net realizable value represents the estimated sale price of an asset during the normal course of operation, less any estimates associated with the eventual sale of the asset. The cost of these inventories cannot be recovered if they have been damaged; are partially or completely obsolete; their market prices fall; or otherwise, if the costs estimated for their termination or sale has increased; this taking into account the formula to determine their net realizable value. The practice of decreasing their balances until their cost is equal to their net realizable value is consistent with the idea that assets should not be recorded in the Group's books with values that exceed the amounts that the Group expects to receive through their sale or use.

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

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

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

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

(ii) *Notes receivable and other accounts receivable*

Notes receivable

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

Non-trade receivables (Other accounts receivable)

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

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

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

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

Prepayments to creditors

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

(iii) *Temporary investments*

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

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

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

Valuation of investments

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

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

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

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

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

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

(Continued)

(iv) *Restricted Use Funds*

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

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

(v) *Trade receivables, net*

Accounts receivable for services rendered

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

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

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

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

(vi) *Prepaid expenses*

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

- The cost of disbursements made in consideration of the future receipt of goods and services under any executed agreements.
- The cost of fuel consumption for thermal generation, the tariffs of which are recognized by the regulatory authority during the same reporting period in which it was requested, that arises out of existing mismatches in relation to the application of the variable generation costs (VGC) methodology. This cost is realized in the profit or loss statement using the straight line method, in compliance with the term established by the regulatory authority to recover it via a tariff, which term can vary, subject to the subsequent notices made by the regulatory authority.
- The costs of energy imports, the tariffs of which are recognized in the same accounting period in which the expense is realized, but the recognition of which is deferred over a specific term, pursuant to the regulatory authority's specifications. This cost is realized in the statement of

profit or loss pursuant to the term established by the regulatory authority to recover it via a tariff, which term can vary, subject to the subsequent notices made by the regulatory authority.

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

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

(vii) *Cash and cash equivalents*

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

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

(f) Equity policies

(i) *Other reserves*

Legal reserve

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

Project development reserve

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

Capital reserve

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

(Continued)

(ii) *Actuarial gains and (losses)*

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

(iii) *Valuation of financial instruments*

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

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

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

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

(iv) *Retained earnings*

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

(v) *Development reserve*

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

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

(vi) *Net surplus (deficit)*

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

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

(Continued)

(g) Policies for non-current liabilities

(i) Debt securities payable

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

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

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

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

(ii) Notes payable

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

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

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

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

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

(Continued)

Nevertheless, this event after the reporting period does not release Grupo ICE from classifying the entire debt as short-term (payable).

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

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

(iii) *Financial lease obligations*

The lease liability is measured initially as the present value of the lease payments that have not been paid as of the effective date, discounted using the interest rate that is implicit in the lease or, if the rate cannot be easily determined, the incremental rate applicable to loans made by Grupo ICE.

The lease payments included in the measurement of the lease liability include the following:

a. Fixed payments, including payments that are, in essence, fixed:
b. Variable lease payments that are dependent of an index or rate, initially measured using the index or rate as of the effective date;
c. Amounts that the lessee expects to pay as residual value guarantees; and
d. the price of executing a purchase option if Grupo ICE is reasonably sure that it will execute such option, the lease payments during an optional renewal period, if the Institute has reasonable certainty that it will execute a renewal option, and payments for penalties derived from the early termination of the lease, unless Grupo ICE has reasonable certainty that it will not execute the early termination of the lease.

The lease liability is measured at an amortized cost using the effective interest method, considering the transaction costs, if any. A new measurement is made when a change in the future lease payment arises as a result of a change in the index or rate; when a change in the estimation made by the Institute of the value that it expects to pay under a residual value guarantee; when the Grupo ICE changes its assessment in relation to executing, or not, a purchase, renewal, or termination option; or when a payment for an essentially fixed lease that has been modified.

When a new measurement of the lease liability is made this way, the corresponding adjustment is made to the carrying value of right-of-use asset, if applicable, or if the carrying value of the right-of-use asset has been reduced to zero, then it is recognized in the statement of profit or loss.

Grupo ICE reassesses the lease liability (and performs the corresponding adjustment to the related right-of-use asset, if applicable), provided that:

a. The term of the lease is modified or there is a significant event or change in the circumstances of the lease, resulting in a change in the assessment of the execution of the purchase option,

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in which case the lease liability is measured discounting the lease payments using an updated discount rate.

b. The payments are modified as a result of the changes in indexes or rate or a change in the payment expected under a guaranteed residual value, in which cases the lease liability is reassessed by discounting the updated payments using the same discount rate (unless the change in the payments is due to a change in the variable interest rate, in which case an updated discount rate is used).

c. A lease agreement is modified, and this modification is not accounted for as a separate lease, in which case the lease liability is reassessed based on the term of the modified lease, discounting the updated lease payments using a discount rate that has been updated as of the effective date of the modification.

Variable lease payments that are not dependent on an index or rate are not included in the measurement of the lease liability and of the right-of-use asset. Related payments are recognized as an expense in the fiscal year in which the event or condition that resulted in such payments took place.

The Group records as "*Financial lease obligations*", in the non-current liabilities section, all obligations it undertakes with institutions, financing entities, suppliers, lessors, or other, in consideration of goods received under a right-of-use asset, provided that their term is greater than one reporting period.

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

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

(iv) <u>Provisions</u>

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

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

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

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

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Employee benefits provision:

Post-employment benefits - legal benefits:

For the employees of Grupo ICE considered permanent:

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

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

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

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

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

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

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

For project employees:

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

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(v) *Non-current accounts payable*

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

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

The valuation of non-current accounts payable is based on the total amount payable agreed in relation to the contracted obligation, which is equivalent to its amortized cost.

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

(vi) *Deferred revenue*

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

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

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

(vii) *Other provisions*

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

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

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

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<u>Legal provisions</u>

a) <u>Litigation</u>

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

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

b) <u>Guarantee of mobile terminals provision</u>

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

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

c) <u>Readjustment of prices</u>

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

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

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

d) <u>Restoration and decommissioning</u>

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

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

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

(viii) *Other non-current liabilities*

Security deposits

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

Security deposits are recorded at their face value.

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

(h) Policies for non-current liabilities

(i) *Debt securities payable*

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

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

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

(ii) *Notes payable*

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

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

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(iii) *Financial lease obligations*

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

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

The valuation of current financial lease obligations is based on the total amount payable agreed in relation to the contracted obligations.

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

(iv) *Accounts payable*

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

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

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

The valuation of current accounts payable is based on the total amount payable agreed in relation to the contracted obligation, which is equivalent to their amortized cost.

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

(v) *Deferred revenue*

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

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

(vi) *Accrued employer obligations payable*

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

a) *Christmas bonus*

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

b) *School aid*

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

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

c) *Vacations*

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

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

- Between 1 and 5 years, 4.17% of their gross salary.
- Between 5 and 10 years, 6.11% of their gross salary.
- For those over 10 years old, 8,33% of their gross salary.

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

d) *Occupational risks*

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

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

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

(vii) *Accrued interest payable*

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

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

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

(viii) *Other liabilities*

Valuation of derivative financial instruments

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

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

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

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

Under cash flow hedge accounting, to cover fixed-rate debt against foreign currency risk, the effect of the exchange differences caused by the quantification of debt in a currency other than the colón is reversed, with net interest accrued by the hedging instrument, to recognize the

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reclassification of the effective portion of the derivative from the profit or loss to the balance sheet.

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

Private deposits

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

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

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

(i) Policies for memorandum accounts

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

Memorandum accounts are recorded at their face value.

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

(j) Policies for operating revenue

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

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

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

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

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

Grupo ICE considers the terms of the agreement and its traditional business practices to determine the price of the transaction. The price of the transaction is the amount of the consideration that it expects to be entitled to in exchange for transferring the committed goods or services to the customer, excluding any amounts collected on behalf of third parties.

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

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

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

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

Revenue from the provision of services prepaid by clients is recognized as revenue individually in each type and classification until services are provided to the end customer. Both fixed and mobile traffic are recorded as revenue as they are consumed. In the case of prepaid services, the amount corresponding to the paid traffic revenue pending consumption generates deferred income that is recorded as *"Deferred revenue"* in the liability section of the consolidated

(Continued)

balance sheet. Sales of terminals sold individually or as part of plans or packages marketed by ICE are recognized as revenue. The revenue from the sale of terminals is recognized by the amount established in the plans or packages marketed, at the time the terminal is transferred to the buyer.

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

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

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

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

The methods that it employs include:

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

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

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

Assets transferred by clients to the Grupo ICE, as donations for the electricity and telecommunications activities in which the Group is involved, either as property, plant, and equipment, or otherwise as cash and on a non-refundable basis, are recorded as Other income.
The Group also records as Other income the realization of government subsidies under which resources (cash or assets) are transferred to the institution, according to the systematic allocation defined in relation to the main asset related to the subsidy.

(Continued)

(k) Operating costs policies

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

(i) Operation and maintenance

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

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

Operation and maintenance costs are stated at the incurred cost.

(ii) Operation and maintenance of equipment under lease

The cost operating and maintaining third-party productive assets used to provide electricity and telecommunications services is stated as *"Operation and maintenance of leased equipment"*. This also includes the related depreciation of right-of-use assets.

Agreements to lease equipment to provide electricity and telecommunication services under which Grupo ICE acts as a lessee are classified as right-of-use assets, except for those that are short-term (12 months or less) or low-value ($10,000 dollars or its equivalent in colones at the time of the transaction), as these are recognized in the statement of profit or loss as operating leases.

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

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

(iii) Supplementary purchases and services

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

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

Supplementary purchases and services are stated at the incurred cost.

(iv) *Productive management*

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

Productive management costs are stated at the incurred cost and, in the case of the Electricity segments, by means of established conductors.

(l) Operating expenses policies

(i) *Administrative*

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

Administrative expenses are stated at the incurred cost and, between segments, means of established conductors.

(ii) *Marketing*

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

- Expenses incurred by Grupo ICE to sell electricity, telecommunications, and other technical services to customers. It includes activities such as conceptualization of the service, customer service, and recovery of the financial benefits driven by the services.
- The cost of mobile terminals and other devices for the rendering of electricity and telecommunications services.

Marketing expenses are stated at the incurred cost.

(iii) *Preliminary studies*

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

These expenses are stated at incurred cost.

(iv) *Pre-investment studies*

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

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

These expenses are stated at incurred cost.

(v) *Supplementary*

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

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

Supplementary operating expenses are stated at the incurred cost.

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

(Continued)

(vi) *Other expenses*

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

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

These expenses are stated at incurred cost.

(m) Policies on financial income and expenses

(i) *Investment income*

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

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

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

(ii) *Financial costs*

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

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

Financial costs are recorded at their amortized cost.

(Continued)

(iii) *Income from investments in other companies*

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

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

(in millions of colones)

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

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

		As of September, 30 2020	As of December,31 (*) 2019
Cost			
Operating assets	¢	7,781,478	7,658,252
Rights of use assets		1,592,305	1,669,177
Other operating assets		400,891	398,438
Total operating assets - cost		9,774,674	9,725,867
Accumulated depreciation:			
Operating assets		4,098,444	3,909,136
Rights of use assets		285,142	268,649
Other operating assets		313,745	308,724
Total accumulated depreciation of operating assets - cost		4,697,331	4,486,509
Operating assets, net		5,077,343	5,239,358
Other assets			
Construction work in progress		268,595	195,058
Inventory for investment projects		95,019	122,718
Total other assets		363,614	317,776
	¢	5,440,957	5,557,134

(*) See note 31.

(Continued)

(in millions of colones)

(i) *Cost*

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

		Recognition of rights of use assets of the initial application of IFRS Standard 16	As of December 31, 2018 (*)	Additions and capitalizations	Recognition of rights of use assets of the initial application of IFRS Standard 16	Disposals	Adjustments, reclassifications, transfers	As of December 31, 2019 (*)	Additions and capitalizations	Recognition of rights of use assets of the initial application of IFRS Standard 16	Disposals	Adjustments, reclassifications, transfers	As of September 30, 2020
Land	¢	-	171,982	2,010	-	-	14,902	188,894	178	-	-	(1,257)	187,815
Buildings		-	379,536	6,417	-	(153)	3,724	389,524	4,760	-	(140)	204	394,348
Hydroelectric power generation (3)		-	2,368,216	7,162	-	(7,301)	(12,040)	2,356,037	64,013	(61,310)	(2,566)	81,002	2,437,176
Thermal power generation		-	147,075	18	-	-	(884)	146,209	-	-	-	(1,275)	144,934
Geothermal power generation (2)		-	512,528	193,760	-	(889)	7,181	712,580	-	-	-	-	712,580
Wind power generation		-	11,785	-	-	(369)	(501)	10,915	-	-	-	-	10,915
Solar power generation		-	12,732	166	-	-	-	12,898	148	-	-	-	13,046
Substations (1)		6,730	443,543	24,955	-	(413)	(1,992)	466,093	807	-	(778)	-	466,122
Transmission lines (1)		-	345,297	19,445	-	-	(3,699)	361,043	6,607	-	-	-	367,650
Distribution circuits		-	929,373	33,601	-	(6,506)	(316)	956,152	30,470	-	(3,798)	5	982,829
Public lighting		-	27,648	3,146	-	(871)	2	29,925	2,173	-	(705)	(1)	31,392
Control, communication and infrastructure equipment		-	282,185	6,926	-	(1,395)	(730)	286,986	835	-	(518)	(2)	287,301
Transport		-	717,205	27,290	-	(990)	(961)	742,544	5,985	-	(7,355)	(642)	740,532
Access		-	469,266	69,074	-	(4,066)	670	534,944	15,778	-	(788)	-	549,934
Civil y electromechanical		-	203,403	5,632	-	(39)	(5,331)	203,665	1,348	-	(8)	-	205,005
Platforms		-	240,836	20,027	-	(1,059)	39	259,843	1,209	-	(11,153)	-	249,899
Subtotal operating assets		6,730	7,262,610	419,629	-	(24,051)	64	7,658,252	134,311	(61,310)	(27,809)	78,034	7,781,478
Rights of use assets:													
Land		-	7,490	7	-	-	1	7,498	1,083	-	-	-	8,581
Buildings and installations		-	29,940	697	4,148	-	-	34,785	-	-	-	-	34,785
Hydroelectric power generation (3)		333,514	1,130,308	56	-	(12)	-	1,130,352	258	-	-	(79,687)	1,050,923
Thermal power generation		198,596	198,596	-	-	-	-	198,596	-	-	-	-	198,596
Geothermal power generation		75,919	75,919	-	-	-	-	75,919	-	-	-	-	75,919
Wind power generation		163,492	163,492	-	-	-	-	163,492	-	-	-	-	163,492
Substations		26,706	26,706	-	-	-	-	26,706	-	-	-	-	26,706
Transmission lines		-	-	-	-	-	-	-	-	-	-	-	-
Transport		-	(11)	752	-	-	11	752	264	-	-	-	1,016
Access		-	8,095	3,462	-	-	(649)	10,908	1,210	-	-	-	12,118
Platforms		-	-	124	-	-	-	124	-	-	-	-	124
Furniture and equipment		-	2,335	(172)	-	(17)	(11)	2,135	-	-	-	-	2,135
Transport equipment		-	-	-	-	-	-	-	-	-	-	-	-
Tower sites and land		-	-	-	17,910	-	-	17,910	-	-	-	-	17,910
Plant and equipment for production		-	-	-	-	-	-	-	-	-	-	-	-
Telecommunications equipment		-	-	-	-	-	-	-	-	-	-	-	-
Subtotal rights of use assets		798,227	1,642,870	4,926	22,058	(29)	(648)	1,669,177	2,815	-	-	(79,687)	1,592,305
Other operating assets		-	400,660	9,722	-	(12,323)	379	398,438	9,831	-	(7,603)	225	400,891
	¢	804,957	9,306,140	434,277	-	(36,403)	(205)	9,725,867	146,957	-	(35,412)	(1,428)	9,774,674

(Continued)

(1) Included under the 2019 values of "additions and capitalizations" is the capitalization record of December 2019 of the Liberia – Papagayo – Nuevo Colón Project, (¢11,658 pertaining to Substations and ¢11.705 pertaining to transmission lines).
(2) Included under the "additions and capitalizations" column, in the 2019 values, is the amount of ¢193,340, for the capitalization of the Pailas II Geothermal Plant.

(3) In the "Adjustments and Transfers" column of the 2020 period, the transfer of the Cariblanco Hydroelectric Power Plan from a right-of-use asset to an operating asset, as property of ICE, is included with an amount of ¢79,687.

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

The account "right-of-use assets" pertains to the value of those productive assets under agreements known as leases. According to the analysis ran from the IFRS 16 stance, which establishes that leases should be recognized in the balance sheet, both as an "right-of-use asset" and with its corresponding liability, a "lease obligation". In these cases, the depreciation of these assets should run for a term equal to the useful lives that the ICE has defined for assets of a similar nature, while the corresponding liability should be amortized according to the respective tables and the financial burden should be recognized during the term of the agreement.

In the initial measurement, the Institute will measure the right-of-use asset at cost, which comprises:

(a) the amount equal to the lease liability at its initial recognition;

(b) lease payments made at or before the commencement of the lease (less any lease incentives received);

(c) any indirect costs incurred by the Institute; and

(d) an estimate of costs to be incurred by the Institute in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Institute could incur in obligations as a result of these costs, either on the commencement date or as a result of having used the underlying asset during a specific period. The lease agreements are the following:

(a) Reventazón Hydroelectric Power Plant Lease Agreement (hydroelectric generation):

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

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

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

a. Develop, continue to build, lease, operate and provide maintenance to the Reventazón Hydroelectric Project, as well as subscribe the necessary financing to fulfill such purposes.

b. Create an autonomous and independent estate that can support and guarantee compliance of the obligations assumed by the trust.

c. Establish the guarantee trust in favor of which the trust's estate will be transferred, under which the trustor shall be this trust, the beneficiaries shall be the secured creditors and the trustee shall be the trustee under this trust. It is agreed that the trustee under the guarantee trust shall be Scotiabank.

d. Comply with the obligations of the trust, in accordance with the transaction documents, which include the payment to secured creditors that have granted credits or that have made investments in securities destined for the development, financing, construction, leasing, operation and maintenance of the Reventazón Hydroelectric Power Plant.

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

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

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

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

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

(b) Lease Agreement - Telecommunications Tower (buildings):

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

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

With the amount received by the Trust for the lease of the property, the principal amount and yields from the securities placed in the stock market shall be paid, as well as those private issuances of securities and loans from national and international banks. In 2020, the monthly installment ranged between ¢194 and ¢213 (¢213 and ¢216 in 2019).

(c) RANGE – Telecommunications Lease Agreement (access):

In January 2014, *Banco de Costa Rica* (BCR) and ICE entered into an agreement referred to as: "ICE-RANGE/BCR Trust Agreement" to address the cost of the design, construction, and maintenance of the New Generation Access Network [RANGE, its acronym in Spanish], including the works related to the installation of equipment, channeling of civil and electromechanical works, duct construction, cable laying, and installation of fiber optic. As a result of such a Trust Agreement, ICE entered into a lease agreement with the Trust regarding the works to be developed by the latter. The term of the lease is 18 years (it ends on 2034),

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with monthly installments calculated in accordance with the formula set forth in the addendum to the aforementioned lease agreement. (See note 19 (c)). During 2020, the monthly installment ranged between ¢253 and ¢270 (¢253 and ¢257 in 2019).

In March 2020, the debt relating to the second stage of this lease agreement was capitalized. During this second stage priority districts of commercial interest will be identified to completely replace its copper network with new fiber-based access infrastructure with PON (Passive Optical Network) technology. The installment paid ranged from ¢334 to ¢418.

(d) *Cariblanco Hydroelectric Power Plant Lease Agreement:*

On July 3, 2003, the ICE and the BNCR entered into the PH Cariblanco Securitization Trust with the aim of developing the Cariblanco Hydroelectric Power Plant, located in the province of Alajuela, central county (Alajuela), district of Sarapiquí, with an installed capacity of 82 MW.

To finance PH Cariblanco, a Securitization Trust was created, and Domestic Bonds were issued in the Stock Market. This also included a construction agreement, signed on August 22, 2003, to build the Cariblanco Hydroelectric Power Plant, which broke down the budget for the works, and a lease agreement for a term of 147 months, starting on October 01, 2007 and ending on December 31, 2019.

This trust may obtain the funds necessary to build the aforementioned power plant by acquiring commercial loans and by issuing, placing, and managing securities through securitization.

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

Some of the main clauses included in this lease agreement are as follows:

- The purpose of these agreements is to govern the lease relationship of the Cariblanco Hydroelectric Power Plant.
- The lessor shall be the securitization trust, while the lessee shall be ICE.
  The monthly lease amount is determined by applying a formula that considers, among other variables, the capitalized cost of the asset (i.e., the cost of the power

  plant). The lease amount is determined in US dollars.
- The lessee may unilaterally request early termination of the lease agreement. The lessee shall communicate this in writing three months in advance. In the event of early termination of the lease agreement, the lessee shall pay any outstanding obligation, as well as an amount (comparable to a penalty clause) equivalent to 12, 6, or 3 monthly lease payments, depending on the time elapsed from the inception of the lease agreement to its early termination.
- As lessee, ICE shall be in charge of operating the plant. Accordingly, ICE assumes responsibility for any damages to the plant's facilities resulting from its operation and maintenance. At the end of the 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.).

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(e) Garabito Thermal Power Plant Lease Agreement:

On June 8, 2007, the Garabito Thermal Power Plant Securitization Trust was entered by and between the ICE and the BCR for the building, start-up, and commissioning, on the first months of 2011, of a thermal power station with medium-speed engines with a maximum capacity of 200 MW. This plant is located in the Northern Pacific region of the country, in the province of Puntarenas, county number four, Montes de Oro, district number three, San Isidro.

To finance the works, a mixed financing mechanism was used, that is, a securitization trust that was executed in June 2007, and an issuance of three series of bonds to make public offering of securities.

KFW IPEX Bank, a German bank, also granted a loan that was secured by the German Export Credit Agency, Euler Hermes. This was in accordance with the Trust's investment needs.

With the financing sources already established, the following three agreements were prepared for the preoperative stage:

a) Turnkey agreement governing the design, supply, start-up, and commissioning of the power plant, signed on October 15, 2008 with the German company MAN-Diesel S.E.

b) Engineering, supervision, and construction services agreement, signed on November 5, 2007 with ICE. In addition to these agreements, ICE was commissioned the construction of a substation associated to this power plant, as well as the transmission lines, administrative buildings, two warehouses, and one workshop. Amendment Order N°1, dated June 16, 2008, included the construction of fuel storage tanks in the works.

c) Lease agreement with a term of 142 months, starting on June 01, 2010 and until April 1, 2022.

On October 9, 2018, a second addenda to the agreement was executed, whereby the lessor and the lessee agreed to reduce the plant's maintenance costs, and upon adjusting such amount, the lease installment was reduced.

This trust may obtain the funds necessary to build the aforementioned power plant by acquiring commercial loans and by issuing, placing, and managing securities through securitization.

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

Some of the main clauses included in this lease agreement are as follows:

- The purpose of these agreements is to govern the lease relationship of the Garabito Thermal Power Plant.

- The lessor shall be the securitization trust, while the lessee shall be ICE.

- 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 powerplant). The lease amount is determined in US dollars.

(Continued)

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

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

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

(f) Toro III Hydroelectric Power Plant Lease Agreement:

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

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

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

(g) Las Pailas Geothermal Power Plan Lease Agreement

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

Subsequently, ICE, as the lessee, shall be responsible for the technical and commercial operation of the infrastructure for a 12-year term, at the end of which, ICE may exercise a purchase option for the plant.

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

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

(Continued)

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

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

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

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

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

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

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

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

The Pailas I Geothermal Project is located in the slopes of the Rincon de la Vieja volcano, specifically in the southern side of this volcano located in the county of Liberia. The project is located next to the Rincón de la Vieja national park, as can be seen in the image. This development is the first unit installed in the Pailas Geothermal Field.

<u>(h) BOT Leases:</u>

The BOT agreements are classified as implicit financial leases. The recognition of these values in the financial statements results in the determination of the fair value of the assets as of the effective date of such agreements. Recognition thereof in the financial statements is made based on the retroactive quantification thereof, computed as of January 01, 2019. In this case the term of the depreciation of the asset pertains to the useful lives that ICE has for similar assets, given that the agreements establish the transfer of the asset at the end of the term of the power purchase agreement.

In the case of BOT agreements, the "right-of-use asset" has to be recognized along with the lease liability. The liability has to be amortized in accordance with the respective tables and the financial cost has to be recognized throughout the term of the agreement.

(i) Low-value financial leases:

This line includes leases with a value that exceeds $10,000 dollars, converted using the exchange rate valid at the time of the transaction, and with a term that exceeds one year. These include real property leases, offices/space in buildings, sites, and machinery and equipment.

The right-of-use asset depreciates during the term of the lease agreement, provided that no option to purchase or transfer the right-of-use asset to ICE exists.

(in millions of colones)

(ii) Accumulated depreciation:

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

	Recognition of rights of use assets of the initial application of IFRS Standard 16	As of December 31, 2018 (*)	Depreciation	Recognition of rights of use assets of the initial application of IFRS Standard 16	Disposals	Adjustments, reclassifications, transfers	As of December 31, 2019 (*)	Depreciation	Recognition of rights of use assets of the initial application of IFRS Standard 16	Disposals	Adjustments, reclassifications, transfers	As of September 30, 2020
Buildings	¢ -	132,004	7,384	-	(110)	700	139,978	5,994	-	(39)	(301)	145,632
Hydroelectric power generation	-	1,069,987	41,692	-	(1,526)	69	1,110,222	31,536	358	(1,388)	18,312	1,159,040
Thermal power generation	-	79,196	3,138	-	-	(99)	82,235	2,289	-	-	(1,028)	83,496
Geothermal power generation	-	308,851	27,745	-	(557)	-	336,039	19,788	-	-	-	355,827
Wind power generation	-	10,943	44	-	(361)	(271)	10,355	33	-	-	-	10,388
Solar power generation	-	6,452	557	-	-	(1)	7,008	386	-	-	-	7,394
Substations	-	225,753	17,344	-	(190)	1	242,908	14,256	-	(323)	-	256,841
Transmission lines	-	114,897	10,846	-	-	(1)	125,742	8,153	-	-	-	133,895
Distribution circuits	-	346,242	29,502	-	(3,034)	1,715	374,425	24,838	-	(886)	-	398,377
Public lighting	-	14,296	1,664	-	(297)	(3)	15,660	1,380	-	(313)	-	16,727
Control, communication and infrastructure equipment	-	109,568	6,574	-	(1,202)	(298)	114,642	5,430	-	(426)	-	119,646
Transport	-	499,619	26,027	-	(971)	(5,702)	518,973	20,588	-	(7,231)	(687)	531,643
Access	-	387,419	49,259	-	(3,909)	5,255	438,024	40,147	-	(758)	-	477,413
Civil and electromechanical	-	186,832	12,311	-	(34)	(32)	199,077	8,752	-	(5)	-	207,824
Platforms	-	178,048	16,833	-	(1,059)	26	193,848	11,056	-	(10,603)	-	194,301
Subtotal operating assets	-	3,670,107	250,920	-	(13,250)	1,359	3,909,136	194,626	358	(21,972)	16,296	4,098,444
Rights of use assets:												
Buildings and installations	-	3,994	650	1,668	-	1,022	7,334	497	1,125	-	-	8,956
Hydroelectric power generation	49,870	74,522	11,851	6,800	-	(3)	93,170	8,892	4,022	-	(17,614)	88,470
Thermal power generation	50,350	50,350	-	5,866	-	-	56,216	-	4,399	-	-	60,615
Geothermal power generation Wind	22,406	22,406	-	3,126	-	-	25,532	-	2,345	-	-	27,877
power generation Substations	56,679	56,679	-	10,461	-	-	67,140	-	7,589	-	-	74,729
Transmission lines	7,721	7,721	-	1,086	-	-	8,807	-	772	-	-	9,579
Transport	-	-	-	-	-	-	-	-	-	-	-	-
Access	-	9	12	-	-	-	21	151	-	-	-	172
Platforms	-	4,474	1,622	-	-	(458)	5,638	1,738	-	-	-	7,376
Furniture and equipment Transport	-	-	11	-	-	-	11	9	-	-	-	20
equipment	-	2,448	204	-	(9)	(1,019)	1,624	164	-	-	-	1,788
Tower sites and land	-	-	-	-	-	-	-	-	-	-	-	-
Plant and equipment for production	-	-	-	3,156	-	-	3,156	-	2,404	-	-	5,560
Telecommunications equipment	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal rights of use assets	187,026	222,603	14,350	32,163	(9)	(458)	268,649	11,451	22,656	-	(17,614)	285,142
Other operating assets	-	302,040	17,883	-	(11,676)	477	308,724	10,977	-	(6,241)	285	313,745
	¢ 187,026	4,194,750	283,153	32,163	(24,935)	1,378	4,486,509	217,054	23,014	(28,213)	(1,033)	4,697,331

(*) See note 31.

(Continued)

(in millions of colones)

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

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

(Continued)

(in millions of colones)

(iii) *Other assets*

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

		Construction work in progress	Inventory for investment projects	Total
As of December 31, 2018	¢	395,259	134,627	529,886
Additions		221,797	84,863	306,660
Disposals (a)		(23,530)	-	(23,530)
Capitalizations (b)		(406,308)	(96,772)	(503,080)
Interst and commissions		8,079	-	8,079
Internal consumption of services (*)		(239)	-	(239)
As of December 31, 2019		195,058	122,718	317,776
Additions (c)		144,644	41,848	186,492
Disposals		(2,319)	-	(2,319)
Capitalizations		(70,495)	(69,547)	(140,042)
Interst and commissions		1,129	-	1,129
Internal consumption of services (*)		578	-	578
As of September 30, 2020	¢	268,595	95,019	363,614

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

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

(b) It includes the capitalization of $193,914 in relation to the Pailas II Geothermal Plant;¢20,214 in relation to the South Ring Transmission project; ¢17,610 in relation to the acquisition of assets for the Higher Management; ¢17,272 in relation to the installation of Business Services;

(Continued)

¢15,476 in relation to improvements to the network; ¢12,469 in relation to the capitalization of the Liberia-Papagayo-Nuevo Colón; and other capitalizations under ¢10,000 applied in 2019, distributed in approximately 60 additional projects.

(c) It includes, under work in progress, an entry in the amount of ¢32,790, applied in March 2020, for RANGE II.

As of September 30, 2020, the capitalized costs for loans of Grupo ICE amounted to ¢1,129 (¢8,079 in 2019). This amount has decreased in comparison to 2019 because the ICE has not invested in new projects using external financing.

The capitalization rate used to determine the amount of the costs for loans that could be subject to capitalization was of 0.60% (4.28% in 2019).

(Continued)

Below you will find a description of the nature and of the main works under construction as of September 30, 2020 and as of December 31, 2019.

(a) *Borinquen Geothermal Project*

This project includes ¢38,323 in costs incurred as of September 30, 2020 (¢34,525 in 2019) in the development of the geothermal project known as Borinquen 1, located on the Guanacaste mountain range, on the Pacific slope of the Rincon de la Vieja volcano. It will have an estimated power output of 52 MW, with an estimated cost of US$399 million.

(b) *Stage II of the RANGE project*

The balance as of September 2020 is of ¢36,715 (¢3,188 in 2019) and it includes the design, construction and maintenance costs for the New Generation Access Network (RANGE E-II). During this second stage of the trust agreement priority districts of commercial interest will be identified to completely replace the copper network with new fiber-based access infrastructure with PON (Passive Optical Network) technology.

(c) *Expansion of LTE Network*

As of September 30, 2020, the balance of this project is ¢22,182 (¢12,621 in 2019), which pertains to costs incurred to execute the project known as "LTE Network", which has a total budget of US$47,6, and which purpose is to increase the broadband and data transmission speeds, per the demand and needs of the end user, so as to comply with the objective of the institution of continuing to work in the expansion of the network's coverage and capabilities, thus improving customer experience.

(d) *Last Mile Override*

This project includes the costs incurred to replace (migrate) the copper network of existing clients in the zones initially implemented in the RANGE Stage II and ICT Heredia projects, with a fiber optic network, all the way to the end customer (connected house), at their homes, businesses, companies, or ventures, which allows the company to provide high-tech multiplay services with ultra-broadband, the balance of which, as of September 30, 2020, is ¢14,932 (¢8,083 in 2019).

(e) *Network Improvements*

The balance, as of September 30, 2020, of ¢13,905 (¢9,491 in 2019) pertains to a permanent execution project that affects the entire telecommunications system, as it allows to guarantee, through improvements, an adequate functioning and access of all systems and networks of the telecommunications system. The goal is to provide continuous communication services that allow to maintain systems within the parameters established by the regulatory body and to guarantee the continuity and quality of the network's systems.

(f) *Installation of Residential Services*

This project is enabled to record all costs incurred by technical personnel in the installation of new residential services throughout the country, the balance of which, as of September 30, 2020 is ¢13,134 (¢9,106 in 2019). The main objective in generating these solutions is to meet the needs of residential customers, who are known to demand next-generation services. services.

(Continued)

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

The balance as of September 30, 2020 amounts to a total of ¢11,376 (¢10,374 in 2019). This project seeks to implement a network solution that allows to provide fixed voice and data services through a permanent wireless access point to a set of villages and public services centers such as elementary and secondary schools, health centers, CENCINAI [Centers for Comprehensive Child Care and Nutrition, in English], etc. for 16 cantons and a total of 66 districts, in response to the offer for the 7 tenders that are grouped as Chorotega Zone and Central Pacific Zone.

(h) *Tarbaca - El Este South Ring Transmission Line*

The balance of ¢10,134 (¢7,496 in 2019) as of September 30, 2020 pertains to the installation of a transmission line spanning over 13,750 m and 36 transmission structures, from their starting point, in tower T#52 of the Tejar-El Este transmission line, where a double circuit branch will run from the junction towards the new route that will start on T#16C, until its endpoint in the junction of the T#50 under the Parrita-Tarbaca transmission line.

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

As of September 30, 2020, there are 12,137 assets that are depreciable by use, of which 3,136 that have a book value of ¢20,659, have not reported any use during the 2019-2020 period.

(Continued)

(in millions of colones)

Note 9. Intangible assets, net

Intangible assets are described below:

		As of September, 30 2020	As of December, 31 2019
Intangible assets with a definite useful life:			
Licences, systems and applications (1)	¢	186,931	178,813
Submarine cable rights (2)		70,451	70,451
		257,382	249,264
Accumulated amortization:			
Licences, systems and applications		(146,551)	(130,735)
Submarine cable rigths (2)		(48,186)	(44,457)
Accumulated amortization		(194,737)	(175,192)
Intangible assets with a definite useful life		62,645	74,072
intangible assets with an indefinite useful life:			
Rights of way and easements (3)		34,305	34,283
Others		2,813	2,813
		37,118	37,096
		99,763	111,168

(in millions of colones)

A detail of intangible assets is shown below:

		Licenses, systems and aplications(1)		Submarine cable rights(2)		Rights of way and easeents(3)		Others		Totals	
		As of September, 30	As of December, 31	As of September, 30	As of December, 31	As of September, 30	As of December, 31	As of September, 30	As of December, 31	As of September, 30	As of December, 31
		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Cost											
Opening balance	¢	178,813	135,360	70,451	66,392	34,283	29,809	2,813	2,813	286,360	234,374
Additions and Capitalizations (a)		8,978	37,267	-	4,059	22	4,474	-	-	9,000	45,800
Tranfers		(4)	14,360	-	-	-	-	-	-	(4)	14,360
Disposals		(856)	(8,174)	-	-	-	-	-	-	(856)	(8,174)
		186,931	178,813	70,451	70,451	34,305	34,283	2,813	2,813	294,500	286,360
Accumulated amortization											
Opening balance		130,735	103,035	44,457	39,655	-	-	-	-	175,192	142,690
Amortization - expense		16,376	20,899	3,729	4,802	-	-	-	-	20,105	25,701
Amortization - investment		296	608	-	-	-	-	-	-	296	608
Transfers		-	14,360	-	-	-	-	-	-	-	14,360
Disposals		(856)	(8,167)	-	-	-	-	-	-	(856)	(8,167)
		146,551	130,735	48,186	44,457	-	-	-	-	194,737	175,192
	¢	40,380	48,078	22,265	25,994	34,305	34,283	2,813	2,813	99,763	111,168

(a) In 2019, the Licenses, systems and applications account includes ¢20,408 in partial additions and capitalizations pertaining to the Administrative Financial Modernization Program (AFMP).

Amortization method

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

In the case of rights of way and easements that Grupo ICE holds, it was determined that no definite term exists to generate future benefits for Grupo ICE, and, therefore, these are not amortized.

The amortization of intangible assets with finite useful lives is calculated using the straight line method from the first date of use, using as reference a useful life that spans between 1 and 10 years.

(1) Licenses, systems, and applications

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

As of September 30, 2020, the balance of the account includes the Financial Administrative Modernization Program [PMAF, its acronym in Spanish], which; to that date, utilizes the main operating modules of the integrated ERP solution that represent 78% of all of the acquired modules (78% in 2019). This software is amortized in a period of 10 years, ending in 2029.

(2) Submarine cable right of use

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

(3) Rights of way and easements

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

In accordance with the terms and conditions of the agreements, Grupo ICE is entitled to rights of way and easements that do not entail the purchase of land or assignment of property to Grupo ICE.

Furthermore, the agreements do not establish a specific term in years for the exercise of that right, thus establishing a permanent easement

Consequently, the Management considers that these intangible assets meet the requirement of having an indefinite useful live, insofar as it is not expressed or indicated in the agreement that there is a definite term for the asset to continue generating cash flows to the entity.

(in millions of colones)

Note 10. Equity investments

Equity investments are described below:

		As of September 30, 2020	As of December 31, 2019 (*)
Joint venture:			
Telecomunica, S.A. - Nicaragua; 500 ordinary shares with a par valuue of C$101,000; 50% ownership interest (1)	¢	1,035	1,014
Other investments at cost:			
Consorcio Cable Maya (2)		15,842	18,344
Red Centroamericana de Telecomunicaciones S.A. 280 ordinary shares with par value of US$1,000: 10,36% ownership (4)		153	153
Other		53	53
		16,048	18,550
Equity Investments measured at fair value:			
Empresa Propietaria de la Red, S.A.; 6, 061 shares with a par value of US1,000: 10,36% ownership interest (5)		3,465	3,466
Valuation of equity investments (EPR) (5)		2,284	2,284
		5,749	5,750
	¢	22,832	25,314

(*) See note 31.

(in millions of colones)

(1) Tecomunica, S.A. – Nicaragua

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

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

		As of September 30, 2020	As of december 31, 2019
Percentage ownership interest		50%	50%
Non-current assets:	¢	1,841	1,308
Current assets:		961	1,343
Non - current liabilities		(63)	(48)
Current liabilities		(669)	(575)
Net assets (100%)	¢	2,070	2,028
Group's share of net assets (50%)		1,035	1,014
Carrying amount of interest in joint venture	¢	1,035	1,014

		As of September 30, 2020	2019
Revenue	¢	1,152	1,103
Other income		113	7
Cost of sales		(520)	(356)
Operating expenses		(714)	(693)
Interest expense		(1)	(1)
Profit or loss and total comprehensive income (100%)		30	61
Profit or loss and total comprehensive income (50%)		15	31
Group's share of total comprehensive income	¢	15	31

(2) Cable Mayo Consortium

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

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

As of September 30, the ICE recognized a reduction in the value of its investment in Cable Maya Consortium, at an amount of ¢2,502. This amount was computed to systematically amortize the value in accordance with the validity thereof (2025 term).

(3) *Red Centroamericana de Telecomunicaciones, S.A.*

In 2013, Grupo ICE acquired ownership interest in *Red Centroamericana de Telecomunicaciones S.A.* [REDCA S.A., its acronym in Spanish]. The purpose of this company is to develop, finance, built, provide maintenance, operate, and exploit telecom services or services related to information and communication technologies. REDCA has issued a total of 2,700 shares of stock, each with a value of US$1,000 (one thousand dollars), and Grupo ICE owns a total of 300 shares (which amount to a 11.11% equity interest), of which 93.24% belong to ICE (280 shares) and 6.76% to CNFL.

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

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

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

As of September 30, 2020, and as a result of the adoption of International Financial Reporting Standard 9, the fair value of the equity investment in EPR was determined, resulting in an increase in the value of this investment in the amount of ¢2.284 (¢2.284 in 2019).

(5) Hydroelectric Project Toro III Trust

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

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

As of September 30, 2020, it has been determined that, under the Business Alliance Agreement to develop the Toro III Project, the parties are contractually bound and that they each have parity of representation in relation to rights, obligations, and decision making regarding relevant activities. This lease should be recognized under the regulatory framework of the IFRS 11 “Joint Arrangements”, which establishes an interest of 50% for ICE, that is, the amount of ¢11,203. This joint agreement is excluded from equity investments and is recognized in the ICE’s assets and liabilities.

(in millions of colones)

Note 11. Notes receivable and other accounts receivable, net

Accumulated expenses and other accounts receivable are detailed below:

		As of September 30, 2020			As of December 31, 2019		
		Non-current	Current	Total	Non-current	Current	Total
Notes receivable:							
Loan to autonomous entities (1)	¢	1,915	147	2,062	1,883	140	2,023
Payment arrangements		277	6,721	6,998	587	2,917	3,504
Allowance for loan losses - Notes receivable (Businesses) (2)		-	(1,737)	(1,737)	(312)	(1,520)	(1,832)
		2,192	5,131	7,323	2,158	1,537	3,695
Non - trade recivables:							
Other non-trade receivables (3)		-	17,743	17,743	-	10,190	10,190
Government (4)		-	12,689	12,689	-	10,132	10,132
Interest accrued on investments		-	374	374	-	1,198	1,198
Other		-	2,150	2,150	-	1,398	1,398
		-	32,956	32,956	-	22,918	22,918
Other accounts recivable		-	(7,949)	(7,949)	-	(991)	(991)
Allowance for loan losses - Non - trade receivables (5)		-	(1,643)	(1,643)	-	(2,030)	(2,030)
		-	23,364	23,364	-	19,897	19,897
Tax credits and withholdings		-	8,528	8,528	-	12,574	12,574
Advances to creditors:							
Other recivables - advance payments (6)		-	27,753	27,753	-	29,532	29,532
Government		-	4,411	4,411	-	2,790	2,790
Employess		-	26	26	-	256	256
		-	32,190	32,190	-	32,578	32,578
	¢	2,192	69,213	71,405	2,158	66,586	68,744

(Continued)

(in millions of colones)

(1) Loans to autonomous entities

This mainly relates to a loan subscribed between ICE and the *Empresa Propietaria de la RED* [EPR] for the repayment of the loan IDB 1908, which amounts to US$4,5, equivalent to ¢2,062 in 2020 (US$4,5 equivalent to ¢2,023 in 2019), of which ¢1,915 pertain to the non-current portion of the loan and ¢147 pertain to the current portion (¢1,883 and ¢140 in 2019, respectively). The total term of the debt is of 25 years as of November 24, 2010, with a grace period of 5 years, payable biannually, with an annual variable interest rate equivalent to 3-Month LIBOR rate, plus a funding margin of 0.25% and an additional 0.80% in consideration of the IDB's credit margin, for a total of 3.52% (in 2018, payable biannually, at a variable annual interest rate equivalent to 6-Month LIBOR, plus a funding margin of 0.25% and the IDB's credit margin of 0.80%, for a total 3.47%), without any security interest.

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

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

		As of September 30, 2020	As of December 31, 2019
Opening balance	¢	1,520	1,396
Allowance expense		217	124
Closing balance	¢	1,737	1,520

(3) General non-trade debtors

As of September 30, 2020, this account includes accounts receivable for the sale of services in the amount of ¢17,743 (¢10,190 in 2019). These services include the sale of commercial goods and services, engineering services, and others.

(4) Government

As of September 30, 2020, the balance of ¢12,689 (¢10,132 in 2019) is comprised mainly of services related to rent invoices and the sale of goods and services.

(5) Impairment Loss Estimate- Non-trade receivables

As of September 30, 2020, the transactions to estimate impairment losses of non-trade receivables are detailed below:

		As of September 30, 2020	As of December 31, 2019
Opening balance	¢	2,030	1,893
Used during the year		(399)	(123)
Allowance expense		12	260
Closing balance	¢	1,643	2,030

(6) General debtors - advances

As of September 30, 2020, the balance of ¢27,753 (¢29,532 in 2019) includes the amount of ¢29,892 (¢20,103 in 2019), which is associated to the lease installment paid in advance in respect of the lease agreement of the Garabito thermal power plant, entered by and between ICE and the Banco de Costa Rica, in which the latter acts as trustee of the Garabito Securitization Trust.

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

Note 12. Investments in financial instruments

The financial instruments are detailed below:

		As of September 30, 2020	As of December 31, 2019
Investments at fair value thorugh other comprehensive income:			
Investments at fair value through other comprehensive income	¢	49,244	72,064
Fair value through other comprehensive income -(FVOCI)		970	1,805
	¢	50,214	73,869

As September 30, 2020, and as a result of the appraisal of investments at fair value with changes recorded in the statement of other comprehensive income, Grupo ICE recognized unrealized net earnings in the amount of ¢970 (unrealized net ¢1,805 in 2019).

(in millions of colones)

The financial instruments are detailed below:

Issuer	Product name	Currency		As of September 30, 2020 Balance	Interest rate	Maturity date
Florida ICE & Farm Company S.A.	Fixed rate	Colones		400	8.85%	03/07/2023
				400		
Government	Fixed rate	Us dollars		47,936	2.52% to 6.73%	11/10/2021 to 08/17/2020
Refinadora Costarricense de Petroleo (Recope)	Fixed rate	Us dollars		908	5.50% to 5.85%	12/05/2022 to 04/03/2028
				48,844		
Gain on measurement at fair value through other comprehensive income (FVOCI)				970		
			¢	50,214		

Issuer	Product name	Currency		As of December 31, 2019 Balance	Interest rate	Maturity date
Govermment	Variable rate	Colones	¢	10,002	6.82%	03/24/2021
Central Bank of Costa Rica	Fixed rate	Colones		5,974	8.63%	04/28/2021
Banco Popular y de Desarrollo Comunal	Variable rate	Colones		5,007	6.75% to 6.80%	03/16/2021 to 03/23/2021
Banco Nacional de Costa Rica	Fixed rate	Colones		1,996	9.15%	01/29/2021
Florida ICE & Farm Company S.A.	Fixed rate	Colones		400	8.85%	07/03/2023
				23,379		
Government	Fixed rate	Dólares		47,823	5.52%	05/25/2021 to 08/17/2022
Refinadora Costarricense de Petroleo (RECOPE)	Fixed rate	Dólares		862	5.50% to 5.85%	12/05/2022 to 03/03/2028
				48,685		
Gain on measurement at fair value through other comprehensive income (FVOCI)				1,805		
			¢	73,869		

(Continued)

(in millions of colones)

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

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

The "Guarantee and Savings Fund" account balance reflects the total amount of Grupo ICE's economic contributions to the Guarantee and Savings Fund System and the Supplemental Pension System and reflects the capitalization amounts recognized by both systems on those contributions, net of advance withdrawals, pension rights, settlements, and actuarial adjustments. The following table contains a detailed description of this account:

		As of September 30, 2020	As of December 31, 2019
Contribution to the Supplemental Pension System	¢	139,711	133,412
Contribution to the Guarantee and Savings Fund		90,354	89,233
	¢	230,065	222,645

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

(in millions of colones)

Note 14. Inventories, net

Inventories are detailed as follows:

		As of September 30, 2020	As of December 31, 2019
Operating inventory	¢	106,922	103,570
Materials in transit for operation		14,354	12,676
Materials and equipment held in custody		216	364
		121,492	116,610
Allowance for valuation of inventory		(26,426)	(29,923)
	¢	95,066	86,687

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

		As of September 30, 2020	As of December 31, 2019
Opening balance	¢	29,923	29,974
Used during the year		(2,961)	(2,757)
Allowance expense		(445)	1,809
Net realizable value		(90)	(1,601)
Closing balance	¢	26,426	29,923

(Continued)

(in millions of colones)

Note 15. Temporary investments

Temporary investments measured at adjusted cost are detailed below:

		As of September 30, 2020	As of December 31, 2019
Amortized cost			
Bonds with public entities	¢	58,947	60,970
Central bank bonds		8,000	26,592
Monetary stabilization bonds		4,839	22,592
Bonds with private entities		-	5,855
Term certificates of deposit		2,422	2,295
Certificate of deposit issued by a mutual fund		-	2,000
Costa Rican External debt bonds		341	12
Allowance for losses on impairment		(132)	-
Fair value at (FVOCI)			
Monetary stabilization bonds		14,014	-
Central bank bonds		5,003	-
Certificate of deposit issued by a mutual fund		5,989	-
Bank Nacional External debt bonds		5,032	-
Fair value at Other Comprehensive Income – (FVOCI)		476	-
	¢	104,931	120,316

(Continued)

(in millions of colones)

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

			As of September 30, 2020		
Issuer	Type of financial instrument	Currency	Balance	Interest rate	Maturity
Government	Variable interest	Colones	9,869	6.80%	24/03/2021
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones	8,476	9,22% - 9,67%	09/10/2020 al 02/11/2020
Banco Central de Costa Rica	Fixed-interest borrowings	Colones	5,989	8.98%	28/04/2021
Banco Popular y de Desarrollo Comunal	Variable interest	Colones	5,003	6,38% - 6,62%	16/03/2021 al 23/03/2021
Banco Nacional de Costa Rica	Fixed-interest borrowings	Colones	1,999	9.34%	29/01/2021
Banco de Costa Rica	Certificate of deposit	Colones	813	3% - 7,92%	30/11/2023
Fideicomiso Benemérito Cuerpo de Bomberos	Fixed-interest borrowings	Colones	341	9.18%	21/10/2020
Banco Nacional de Costa Rica	Certificate of deposit	Colones	41	6,00%-8,25%	30/11/2023
			32,531		
Banco Nacional de Costa Rica	Fixed-interest borrowings	US dollars	15,144	3,27% al 5,53%	24/02/2021 al 25/04/2021
Banco de Costa Rica	Fixed-interest borrowings	US dollars	12,111	2,43% al 2,60%	25/10/2020 al 25/01/2021
Banco Improsa	Fixed-interest borrowings	US dollars	9,085	3,23% al 4,15%	9/10/2020 al 10/02/2021
Government	Fixed-interest borrowings	US dollars	8,852	3,96% al 8,45%	18/11/2020 al 17/08/2022
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	US dollars	6,059	2,45% al 2,95%	11/02/2021 al 19/02/2021
Financiera Desyfin	Fixed-interest borrowings	US dollars	6,057	5.10%	10/12/2020
Banco Promérica	Fixed-interest borrowings	US dollars	3,028	2.80%	17/03/2021
Banco PRIVAL,S.A. (Antiguo BANSOL Banco de Soluciones)	Fixed-interest borrowings	US dollars	3,028	3.45%	44251
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	US dollars	2,422	3.03%	06/11/2020
Banco Scotiabank de Costa Rica, S.A.	Fixed-interest borrowings	US dollars	2,021	5.00%	31/12/2020
Banco Cathay	Fixed-interest borrowings	US dollars	1,817	3.73%	25/02/2021
Banco Internacional de Costa Rica (BICSA)	Certificate of deposit	US dollars	1,335	3.50%	30/11/2020
Banco de Costa Rica	Certificate of deposit	US dollars	1,441	2,66% - 4,30%	31/01/2025
			72,400		
			104,931		

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

Issuer	Type of financial instrument	Currency		As of December 31, 2019* Balance	Interest rate	Maturity
Banco Popular y de Desarrollo Comunal	Fixed-interest borrowings	Colones	¢	22,592	6,51% - 9,75%	19/03/2020 - 02/11/2020
Financiera Desyfin	Fixed-interest borrowings	Colones		5,501	9,65% - 10,50%	19/02/2020 - 24/07/2020
Banco de Costa Rica	Fixed-interest borrowings	Colones		5,000	9.15%	25/02/2020
Government	Zero-coupon Central Bank bon	Colones		3,932	8.70%	16/03/2020
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	Colones		3,501	6,70% - 7,50%	17/02/2020 - 16/09/2020
Banco BAC San José, S.A.	Fixed-interest borrowings	Colones		2,515	6,75% - 6,80%	13/01/2020 - 26/03/2020
Government	Fixed-interest borrowings	Colones		2,005	7.59%	25/03/2020
Banco Cathay	Fixed-interest borrowings	Colones		2,000	10.50%	06/03/2020
Banco Nacional de Costa Rica	Fixed-interest borrowings	Colones		2,000	8.95%	17/03/2020
Banco Central de Costa Rica	Fixed-interest borrowings	Colones		2,000	6.26%	04/03/2020
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	Fixed-interest borrowings	Colones		1,002	7.50%	24/03/2020
Banco Davivienda (Costa Rica) S.A.	Variable interest	Colones		1,001	5.70%	24/03/2020
Banco de Costa Rica	Certificate of deposit	Colones		662	3% - 7,92%	10/07/2019 -30/11/2023
Fideicomiso Benemérito Cuerpo de Bomberos	Fixed-interest borrowings	Colones		341	9.20%	21/10/2020
Banco Nacional de Costa Rica	Certificate of deposit	Colones		41	6,00%-8,25%	26/04/2019 - 30/11/2023
				54,093		
Government	Fixed-interest borrowings	US dollars		20,667	4,83% - 10,00%	27/05/2020 - 18/11/2020
Financiera Desyfin	Fixed-interest borrowings	US dollars		12,622	5,15% - 5,70%	26/02/2020-10/12/2020
Banco Promérica	Fixed-interest borrowings	US dollars		8,606	4,10% - 5,20%	13/03/2020 - 18/09/2020
Banco Improsa	Fixed-interest borrowings	US dollars		5,738	4.20%	09/10/2020
Banco Cathay	Fixed-interest borrowings	US dollars		5,451	4,25% - 5,50%	24/02/2020 - 25/08/2020
Banco PRIVAL,S.A. (Antiguo BANSOL Banco de Soluciones)	Fixed-interest borrowings	US dollars		4,589	3,45% - 5,5%	20/02/2020 - 7/08/2020
Banco Nacional de Costa Rica	Certificate of deposit	US dollars		2,986	1,30% - 4,85%	30/04/20 - 09/08/21
Mutual Cartago de Ahorro y Préstamo	Fixed-interest borrowings	US dollars		2,295	3.10%	06/11/2020
Banco Scotiabank de Costa Rica, S.A.	Fixed-interest borrowings	US dollars		1,999	5.00%	21/08/2020
Banco Internacional de Costa Rica (BICSA)	Certificate of deposit	US dollars		1,159	3.50%	20/04/2020
Banco de Costa Rica	Certificate of deposit	US dollars		111	2,66% - 4,30%	01/01/2020 - 31/01/2025
				66,223		
				120,316		

(Continued)

(in millions of colones)

Note 16. Trade receivables, net

Trade receivables are detailed below:

		As of September 30, 2020	As of December 31, 2017 2019 *(Restated)**
Borrowers in general	¢	187,293	149,426
Government		40,941	31,857
Private banking entities		179	196
Other		(740)	-152
		227,673	181,327
Allowance for losses on impairment of trade receivables		(41,230)	(34,365)
	¢	186,443	146,962

(*) See note 30.

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

		As of September 30, 2020	As of December 31, 2019
Opening balance	¢	34,365	42,152
Used		(875)	(28,494)
Loss on impainment recognized during the year		7,740	20,707
Closing balance	¢	41,230	34,365

Note 17. Prepaid expenses

The prepaid expenses are detailed below:

		As of September 30, 2020	As of December 31, 2019 *(Restated)**
Debt interests		12,239	16,693
Other		513	282
	¢	12,752	16,975

(*) See note 30.

(in millions of colones)

(1) Debt interest

As of September 30, 2020, the debt interest of Grupo ICE amounted to ¢12,752 (¢16.975 in 2019), which pertained to the financial cost of the obligation that arised out of the financial lease agreement executed by Grupo ICE under the Reventazón Hydroelectric Project Trust (see notes 8 and 19 (c)).

Note 18. Cash and cash equivalents

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

		As of September 30, 2020	As of December 31, 2019 *(Restated)**
Cash on hand and in banks	¢	317,401	144,566
Cash equivalents		13,080	24,760
Exchange differential due to the effect of exchange rates on the cash held (**)		(187)	680
	¢	330,294	170,006

(*) See note 30.
(**) Effect of the variation in exchange rates on cash held by (¢1.283) for 2020 and ¢ 3.724 for 2019.

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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(in millions of colones)

A detailed description of the cash equivalents is included below:

Classification	Currency	Issuer	Type of financial instrument		As of September 30, 2020 Balance	Interest rate	Maturity
Fair value through profit or loss	Colones	Popular SAFI	Investment funds	¢	3,895	3,37%-4,77%	31/07/2018- Vista - 31/10/2019-Vista
Fair value through profit or loss	US dollars	Popular SAFI	Investment funds		2,260	1,79%-4,62	08/09/2017- Vista 07/06/2019- Vista
Amortized cost	Colones	BN FONDOS	Investment funds		206	1.98%	30/10/2018- Vista
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Certificate of deposit		4,512	1.00%	21/11/2019 - 06/01/2020
Amortized cost	US dollars	Banco Internacional de C.R. -Miami-	Overnight		1,990	1.00%	31/12/2020
Amortized cost	US dollars	Government	Investment funds		143	2.00%	11/09/2019 - 11/03/2020
Amortized cost	US dollars	Banco de Costa Rica (BCR)	Certificate of deposit		75	1,75%-4,30%	2/08/2017- 31/01/2025
				¢	13,080		

Classification	Currency	Issuer	Type of financial instrument		As of December 31, 2019 Balance	Interest rate	Maturity
Fair value through profit or loss	Colones	Popular SAFI	Investment funds	¢	3,895	3,37%-4,77%	31/07/2018- Vista - 31/10/2019-Vista
Fair value through profit or loss	US dollars	Popular SAFI	Investment funds		2,260	1,79%-4,62	08/09/2017- Vista 07/06/2019- Vista
Amortized cost	Colones	BN FONDOS	Investment funds		206	1.98%	30/10/2018- Vista
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Overnight deposit		12,609	1.00%	31/12/2020
Amortized cost	US dollars	Banco Internacional de C.R -Miami-	Certificate of deposit		4,512	1.00%	21/11/2019 - 06/01/2020
Amortized cost	US dollars	Government	Repurchase operations		1,061	3.64%	13/01/2020
Amortized cost	US dollars	Government	Investment funds		143	2.00%	11/09/2019 - 11/03/2020
Amortized cost	US dollars	Banco de Costa Rica (BCR)	Certificate of deposit		74	1,75%-4,30%	2/08/2017- 31/01/2025
				¢	24,760		

(Continued)

(in millions of colones)

Note 19. **Financial debt**

a. ***Debt securities payable***

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

	Currency	Interest rate	Year of maturity		As of September 30, 2020			As of December 31, 2019		
					Non-current	Current	Total	Non-current	Current	Total
Internal debt:										
Bond issue	¢	Variable between 5,65% and 9,18% (2019: variable between 7,45% and 9,98%) and fixed 11,41%, in 2020 and 2019	2020-2035	¢	212,251	70,018	282,269	262,371	19,988	282,359
Bond issue	US$	Fixed between el 5,97% and el 7,65%, in 2020 and 2019	2020-2027		272,745	45,419	318,164	258,439	43,038	301,477
External debt:										
Bond issue	US$	Fixed between 6,38% and 6,95%, in 2020 and 2019	2021-2043		602,497	-	602,497	569,308	-	569,308
				¢	1,087,493	115,437	1,202,930	1,090,118	63,026	1,153,144

Debt securities payable (bonds) in US dollars amount to US$1,517 (US$1,1518 in 2019). These obligations are backed with a generic guarantee issued by ICE.

(Continued)

(in millions of colones)

b. ***Notes payable***

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

		As of September 30, 2020	As of December 31, 2019
Internal debt:			
Colones	¢	143,713	155,873
US dollars		45,904	44,199
External debt:			
Colones		96,267	99,189
US dollars		583,355	574,248
Yen		122,283	112,650
		991,522	986,159
Non-current		898,807	899,030
Current		92,715	87,129
	¢	991,522	986,159

Note 33 includes information about the Group's exposure to interest rate, foreign exchange, and liquidity risks.

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

(in millions of colones)

		As of September 30, 2020	As of December 31, 2019
Internal debt:			
State-owned banks	¢	186,133	196,271
Private banks		3,484	3,801
External debt:			
Private banks		800,246	783,083
Other creditors		1,659	3,004
	¢	991,522	986,159

Notes payable in US dollars amounted to US$1,039 and in Yens to ¥21,369 (US$1,079 and ¥21,249 in 2019).

Total non-current notes payable, which amount to ¢898,807 (¢899,030 in 2019) is included in 2020 in the amount of ¢841,013 (¢839,775 in 2019), linked to the electricity business, and ¢57,794 (¢59,255 in 2019), linked to the telecoms sector. Regarding total current notes payable, the ¢92,715 (¢87,129 in 2019) during 2020 can be broken down as follows: ¢80,549 (¢74,020 in 2019) pertain to the electricity sector and ¢12,166 (¢13,109 in 2019) pertain to the telecoms sector.

The characteristics of these notes payable are detailed below:

	Interest rate	Currency	Term
Internal debt:	Variable between 8,05% and 9,70% (2019: variable between el 8,15% and 9,70%).	¢	Maturing between january 03, 2022 and october 23, 2045
	Variable between 5,55% and 6,50% (2019: variable between 7,15% and 7,80%).	US$	Maturing between august 31, 2033 and september 13, 2043
External debt:	Variable between 7,50% and 7,70%, in 2020 and 2019. Fixed 7,51% in 2020.	¢	Maturing between may 25, 2027 and 14 october, 2037
	Variable between 2,32% and 6,40% (2019: variable between 2,93% and 6,92%) Fixed between 0,70% and 6,40%, in 2020 and 2019.	US$	Maturing between october 08, 2020 and march 15, 2044
	Fixed between 0,60% and 2,20%, in 2020 and 2019.	JPY	Maturing between april 20, 2026 and june 20, 2057

Total notes payable amounted to ¢991,522 (¢986,159 in 2019) and include loans in the amount of ¢694,900 (¢702,635 in 2019) and a generic guarantee of ICE (no security interest) and ¢296,622 (¢283,524 in 2019) secured by the Government of the Republic.

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

Some of the loan agreements also establish clauses called:

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

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

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

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

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

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

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

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

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

As of September 30, 2020, financial covenants that required compliance in this period and that are related to debt agreements, comply with the established limits.

(in millions of colones)

c. ***Financial lease obligations***

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

	Interest rate	Year of maturity		As of September 30, 2020 Non-current	Current	Total	As of December 31, 2019 (*) Non-current	Current	Total
Trust in colones									
La Sabana Businees Center	Variable 6,40% (2019: variable 8,70%)	2030	¢	15,078	1,236	16,314	16,168	989	17,157
Range	Variable between 10,14% and 10,23% (2019: variable 8,60%)	2034		52,535	2,770	55,305	21,342	779	22,121
UNO P.H. Reventazón	Variable 8,75%, in 2020 and 2019	2033		342,216	7,632	349,848	206,553	7,632	214,185
Minor leases	Variable between 14,53% and 16,71%	2020-2023		255	82	337	654	114	768
Trust in US dóllars									
UNO P.H. Reventazón	Variable 6,22% (variable 6,94%, in 2019)	2033		88,184	11,280	99,464	212,614	10,501	223,115
Garabito	Variable 7,72%	2022		15,035	28,389	43,424	34,599	25,379	59,978
Toro III	Variable 6,51%	2028		29,047	3,155	32,202	29,770	2,801	32,571
Las Pailas	Variable 4,9%	2023		35,838	7,826	43,664	37,694	7,235	44,929
Eolica Guanacaste	Variable 12,40%	2028		35,105	2,934	38,039	36,285	2,259	38,544
Hidro el General	Variable 12,82%	2023		14,327	6,307	20,634	18,760	5,579	24,339
Eolicas Orosi	Variable 11,83%	2033		66,965	2,110	69,075	66,116	1,899	68,015
Chiripa	Variable 11,98%	2033		66,613	2,155	68,767	65,797	1,550	67,347
Torito	Variable 15,42%	2032		71,589	2,374	73,963	69,978	2,143	72,121
La Joya	Variable 23,14%	2023		14,551	6,619	21,170	19,680	5,585	25,264
Chucas	Variable 14,72%	2031		59,062	2,182	61,244	56,902	1,674	58,576
Minor leases	Variable between 8,70% and 9,13%	2020-2028		11,763	3,760	15,523	14,817	2,588	17,405
Vehicles	Variable 8,65% and fixed between 5,95% and 9,30%, in 2020 and 2019 (variable 8,65% in 2019)	2020-2027		37	55	92	79	24	103
Physical space	Fixed between 5,01% and 9,30%, in 2019	2024-2033		253	183	436	281	160	441
Equipments	Fixed between 5,01% and 9,30%, in 2019	2020-2032		100	28	128	108	25	133
			¢	918,554	91,074	1,009,628	908,195	78,916	987,111

(*) See note 31.

Financial lease obligations in US dollars amounted to US$976 (US$1,169 in 2019).

The balances herein relate to the obligations arising out of financial lease agreements entered by and between ICE and the Trusts (see note 8 (i)).

In relation to the P.H. Reventazón Trust (see note 8), dated December 20, 2013, the Onshore Trustee (Borrower) of the Trust, the Senior Lenders (national and foreign banks) under the Trust, and the Intercreditor Agent (the Bank of New York Mellon), entered into a Common Terms Agreement-CTA, which established, among other things: the disbursement conditions, representations and warranties, covenants, duties and obligations, default events, and a series of environmental, legal, fiscal, financial, operational and business covenants (obligations to do and to abstain from doing) that the debtor (Trust) has to fulfill. On December 20, 2013, ICE signed a Side Letter Agreement with the Trust, the Bank of New York Mellon as Intercreditor Agent, and the Onshore Trustee, establishing, among other things, a series of covenants (obligations to do and to abstain from doing) that it has to fulfill in connection with its financial lease obligations associated with the P.H. Reventazón Trust. As of September 30, 2020, the creditors and the Trust renegotiated the debt, and this allowed the ICE to substitute a 56% of the debt in dollars with colones, as well as to eliminate the interest rate floor in the existing colones credits. Likewise, the original term to repay the debt in colones was extended an additional 10 years.

(in millions of colones)

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

		Liabilities			
		Securities payable	Loans payable	Finance lease obligations	Total
Balance as of December 31, 2019 (*)	¢	1,153,144	986,159	987,112	3,126,415
Changes in cash flows from financing activities					
Disbursements		-	38,220	34,422	72,642
Amortization		-	(78,829)	(58,829)	(137,658)
Amortized cost		1,113	2,471	(381)	3,203
Total changes in cash flows from financing activities		1,113	(38,139)	(24,787)	(61,813)
Effect of changes in exchange rates		48,673	43,502	38,741	130,917
P.H. Reventazón debt refinancing adjustment				8,562	8,562
Balance as of September 30, 2020	¢	1,202,930	991,522	1,009,628	3,204,080

		Liabilities			
		Securities payable	Loans payable	Finance lease obligations	Total
Balance as of December 31, 2018 (*)	¢	1,231,247	980,193	1,098,924	3,310,364
Changes due to cash flows from financing activities					
Disbursements		-	207,934	1,263	209,197
Amortization		(20,255)	(155,273)	(79,727)	(255,255)
Total changes in cash flows from financing activities		(20,255)	52,661	(78,464)	(46,058)
Effect of changes in exchange rates		(57,848)	(46,604)	(56,118)	(160,570)
Lease obtained in the assignment of rights and obligations of subsidiaries		-	(91)	65	(25)
Reclassification of leases – rights of use		-	-	646	646
New leases		-	-	22,058	22,058
Balance as of December 31, 2019 (*)	¢	1,153,144	986,159	987,112	3,126,415

(*) See note 31.

(in millions of colones)

Note 20. Employee benefits - legal benefits

Legal benefits provided to employees are described below:

		As of September 30, 2020			As of December 31, 2019		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits	¢	78,415	5,013	83,428	72,037	8,023	80,060

A detail of these employment obligations is presented below:

		As of September 30, 2020
Opening balance	¢	80,060
Expense for the year - investment		1,508
Expense for the year - operation		14,081
Used during the year		(10,622)
Incentives 2019		(1,599)
Total	¢	83,428

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

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

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

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

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

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

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

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

Computation of employee benefits obligations is done annually by a qualified actuary using the projected unit credit method, also known as the accumulated benefits method or the years

(Continued)

served method. When the computation results in a possible asset for ICE, the asset recognized is limited to the present value of the economic benefits available as future reimbursements of the plan or otherwise as reductions in future contributions for such plan. To calculate the present value of economic benefits, minimum financing requirements must be considered.

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

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

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

(Continued)

(in millions of colones)

Note 21. Accounts payable

Accounts payable are detailed below:

		As of September 30, 2020	As of December 31, 2019 (*)
Government	¢	11,275	15,255
Taxes and withholdings payable		13,226	15,573
Other creditors		121,492	98,889
		145,993	129,717
Less non-current portion	¢	(7,005)	(6,845)
	¢	138,988	122,872

(*) See note 30.

Note 33 includes information about the Group's exposure to interest rate, foreign exchange, and liquidity risks.

(in millions of colones)

Note 22. <u>Deferred income</u>

Deferred income is described below:

		As of September 30, 2020			As of December 31, 2019		
		Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢	-	4,772	4,772	-	5,046	5,046
Government grants (2)		8,377	281	8,658	8,959	281	9,240
Transfer of spare parts - materials (3)		-	10,355	10,355	-	9,961	9,961
Other		-	10,418	10,418	-	8,340	8,340
	¢	8,377	25,826	34,203	8,959	23,628	32,587

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

(1) <u>Prepaid mobile:</u>

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

(2) <u>Government subsidies:</u>

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

(in millions of colones)

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

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

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

Note 23. Other liabilities

Other liabilities are detailed below:

		As of September 30, 2020	As of December 31, 2019
Security deposits	¢	56,815	56,968
Deposits from private individuals or companies		10,540	11,762
Valuation of financial instruments		(2,143)	(1,935)
		65,212	66,795
Less non-current portion		(56,815)	(56,968)
	¢	8,397	9,827

The balance of security deposits is equal to ¢56,815 (¢56,968 in 2019), of which ¢32,003 belong to the electric sector (¢30,988 in 2019), in consideration of amounts collected from clients, equal to one month of power and energy invoicing, as a means to guarantee the payment of services, and ¢24,812 (¢25,980 in 2019) associated to the telecom sector, which belong to deposits requested to customers to secure the services being rendered, both for mobile, fixed and roaming telephone services.

(in millions of colones)

Note 24. <u>Accrued employer obligations payable</u>

Accrued employer obligations payable are detailed below:

		As of September 30, 2020	As of December 31, 2019
Vacation	¢	26,357	24,682
Statutory Christmas bonus		19,078	1,847
Back-to-school bonus		15,614	21,608
Third and fifth biweekly salary payment		1,381	281
Occupational hazard insurance		36	69
Total	¢	62,466	48,487

(in millions of colones)

A detail of these employment obligations is presented below:

		As of September 30, 2020					
		Vacation	Statutory Christmas bonus	Back-to-school bonus	Third and fifth biweekly salary	Occupational hazard insurance	Total
Opening balance	¢	24,682	1,847	21,608	281	69	48,487
Expense for the year - investment		332	3,851	1,783	8,675	1,561	16,202
Expense for the year - operation		16,690	13,579	13,055	-	-	43,324
Used during the year		(15,347)	(199)	(20,832)	(7,575)	(1,593)	(45,546)
	¢	26,357	19,078	15,614	1,381	36	62,466

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

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

(Continued)

(in millions of colones)

Note 25. Memorandum accounts

Memorandum accounts are detailed below:

		As of September 30, 2020	As of December 31, 2019
Guarantees received:			
Performance bonds (1)	¢	62,037	98,379
Collection agents (2)		10,707	11,324
Bid bonds (3)		1,722	18,991
Security deposits		586	561
Subtotal		75,052	129,255
Credit memoranda accounts - other - surety		1,692	1,692
Mobile terminals received from clients		118	1,514
Consigned assets – Computers for the “Hogares conectados” program		1,630	1,551
Contingent assets:			
Savings and loan funds		34,280	33,599
CNFL Employees Association (ASEFYL)		15,138	14,792
Performance bonds - procurement		659	961
Materials in transit		-	286
Bid bonds		5	863
Collection of electricity services		1,149	1,200
Materials loans		72	158
Employee guarantees		277	278
Rental of posts		235	319
Performance bonds - labor contracts		165	167
Security deposits (electricity consumption)		403	425
Valle Central Wind Power Plant		89	83
CNFL performance bonds		670	762
Guarantee and Savings Fund - RACSA		3,622	3,484
Subtotal contingent assets		56,764	57,377
Contingent liabilities:			
Payment arrangements - financing of appliances		52	63
	¢	135,308	191,452

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

(1) Compliance

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

(2) Collection Agents

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

(3) Ownership

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

(in millions of colones)

Note 26. Income from ordinary activities

The effect of the initial application of IFRS Standard 15 on the revenue from contracts with customers of ICE's telecommunications business is described in Note 6 (b). In the case of the Electricity Business, the implementation thereof took place in 2019.

a) *Revenue streams*

The Institute generates revenues from the sale of electric power as well as from the sale of telecommunications services.

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

		For the period ended September 30,	
		2020	2019
Electricity services	¢	609,642	645,394
Telecom services		431,618	451,047
	¢	1,041,260	1,096,441

(in millions of colones)

b) *Disaggregation of ordinary revenue from energy sales*

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

		For the period ended September 30,	
		2020	2019
Local electricity	¢	525,411	558,166
Transmissión charges		47,826	57,116
Foreign electricity		17,467	11,732
Públic lighting		9,620	9,552
Management services		9,318	8,828
	¢	609,642	645,394

Sales distributed by major components are detailed below:

		For the period ended September 30,	
		2020	2019
Electricity	¢	408,462	406,500
Demand		127,981	138,755
Transmissión charges		47,826	57,116
Públic lighting		16,707	16,826
Variable cost of fuel		6,168	17,366
Management services		2,382	3,830
Others		117	5,000
	¢	609,642	645,394

(in millions of colones)

c) *Disaggregation of ordinary revenue from telecommunications and electricity sales, respectively:*

The electricity business' ordinary revenue from contracts with customers is disaggregated by geographic markets as follows:

		For the period ended September 30,	
		2020	2019
Local	¢	599,262	640,937
Foreign		10,380	4,457
	¢	609,642	645,394

The following table disaggregates, by geographic market, the telecommunications business' ordinary revenue from contracts with customers:

		For the period ended September 30,	
		2020	2019
Local	¢	429,687	437,588
Foreign		1,932	13,459
	¢	431,618	451,047

Revenue recognition opportunity

Ordinary revenue from the sale of energy and telecommunications services is recognized at that certain time when Grupo ICE satisfies the contractual obligation by transferring control.

(in millions of colones)

c) *Contract balances*

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

		For the period ended September 30,	
		2020	2019 *(Restated)**
Trade receivables (note 16).		78,511	68,702
Contract liabilities (note 23)		(56,815)	(56,968)
	¢	21,696	11,734

(*) See note 30.

Liabilities arising out of the agreements and relating to security deposits amount to ¢56,815 (¢56,968 in 2019), of which ¢32,003 pertain to the electricity business (¢30,988 in 2019) and ¢24,812 (¢25,980 in 2019) to the telecommunications business.

(in millions of colones)

Note 27. Operating Costs and Expenses

Operating costs and expenses are detailed below:

		Costs of operation		Operating expenses	
		For the period ended September 30,			
		2020	2019 *(Restated)**	2020	2019 *(Restated)**
Depreciation	¢	231,043	221,469	4,864	4,036
Salaries and provisions		121,775	121,219	111,220	107,797
Services		113,222	114,855	52,744	60,773
Private Generation (b)		47,641	53,491	-	-
Materials and supplies		13,270	11,890	48,721	87,875
Amortizable intangible ítems		9,071	8,772	9,695	7,860
Import of energy		4,886	25,199	-	-
Fuel thermal generation		2,327	15,252	-	-
Others		34,131	47,661	67,800	87,132
Total	¢	577,366	619,808	295,043	355,473

(*) See note 30 y 31.

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

Under the terms of the “Act that Authorizes Autonomous or Parallel Energy Generation", No. 7200, which declares, as a matter of public interest, the purchase of electricity by ICE from those private companies that comply with the conditions established in such Act, Grupo ICE has entered into power purchase agreements with several private electricity generators. This Act includes two regimes or chapters: Chapter I “Autonomous or Parallel Energy Generation” is the one that generates the so called BOO (Build, own, and operate) agreements.

As of September 30, 2020, the Grupo ICE maintains 29 agreements with private generators under Chapter I of Act No. 7200 (BOO agreements). Four types of agreements exist:

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

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

ICE will not make any payments for the power delivered by the private generator with a power output that exceeds the agreed maximum. Electricity received under these agreements is paid at the rates in effect set by ARESEP upon its delivery.

ICE entered into agreements under Chapter I of Act N° 7200 ever since the law was enacted in 1990. As of 2009, once the agreements executed in the nineties started to expire (which maximum term was 15 years), Grupo ICE proceeded to renew them, for the remaining term of the concessions (which were granted for 20 years.) Institutional policies to renew soon-to-expire agreements are currently under review. Similarly, the contracts that are renewed are adapted to the new supply and demand conditions prevailing in the National Electrical System, different from those that existed at the beginning of these contracts. Moreover, one photovoltaic power plant, the agreement of which was executed as a result of the tender process executed in 2015, still needs to be incorporated. Currently, agreements have been entered into with 29 companies: 10 wind farms, 2 sugar factories, and 17 hydroelectric plants.

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

2017. In relation to the hydroelectric projects, only El Ángel (Ampliación) executed an agreement and is currently operational.

In February 2014, Bid No. 02-214 was published, and its result was confirmed on August 29 once General Management rejected the appeal filed by one of the participants. Through this second call for bids, two wind energy and four hydroelectric projects were selected, of which one waived his selection. In December 2015, the Vientos del Este Wind Farm began operating, and generates 9 MW. In July 2016, the Mogote Wind Farm began operating and generates 20 MW. The agreements for the three hydroelectric projects were made and entered during the second semester of 2017. Nevertheless, one of the agreements was terminated in 2019, while the other two were terminated in 2020, all due to noncompliance.

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

Rate adjustments for private power plants (BOO)

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

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

On May 7, 2010, through resolution RJD-009-2010 of the ARESEP, the “Methodology to set the tariffs for private generators (Act 7200) that enter into a new agreement for the purchase and sale of electricity with ICE”, published in the official newspaper, “La Gaceta”, No. 109 of June 7, 2010. On Wednesday, August 26, 2020, Resolution RE-0079-IE-2020 was published in the Official Newspaper, “La Gaceta”, thereby authorizing the last setting of tariffs for these types of plants, which include private hydroelectric and wind generators.

On April 26, 2010, by means of resolution RJD-004-2010 of the ARESEP, the “Methodology to set tariffs according to the typical cost structure of a model sugar cane husk biomass power plant that sells energy to the *Instituto Costarricense de Electricidad* and its price indexing formula” was approved, and subsequently published in the Official Newspaper, “La Gaceta”, No. 98, on May 21, 2010. On September 16, 2019, resolution RE-008585-IE-2020 was published in the Official Newspaper, “La Gaceta”, thereby authorizing the last setting of tariffs for these types of plants.

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

(Continued)

(in millions of colones)

b) **Power imports**

The import of energy fell, as the year 2020 started with significant improvements in flow rates in comparison to 2019.

c) **Fuel for thermal power generation**

The consumption of fuel for thermal power generation recorded a net reduction of ¢12,925, mainly in diesel consumption, due to favorable climatological factors in 2020 and the use of renewable energy sources.

Note 28. Other revenue

		For the period ended September 30,	
		2020	2019
Constructions services (1)	¢	5,267	9,309
Others (2)		32,576	16,877
Total	¢	37,843	26,186

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

(2) The increase in other revenue was driven mainly by the reversal of the obligation associated to the acquisition of Cable Visión de Costa Rica, due to payments due to former partners of the company, for an amount of ¢2,700. This was due to an ongoing related judicial process that involves the application of accounting methods based on the probability of success of the litigations, but not an actual obligation. In addition, increases were also recorded in the amounts of ¢1,391 and ¢706, respectively, for the absorption of security deposits from customers and for the sale of terrains for the north beltway project.

This increase was also driven by the sale of engineering and construction services, which include the supervisory services that Grupo ICE provides to different generation projects in El Salvador under agreements associated to the Executive Commission of the Hydroelectric Station of the Lempa River (CEL), among others.

(in millions of colones)

Note 29. Financial revenue and costs

		For the period ended September 30,	
		2020	2019 *(Restated)**
Income from investments (1)	¢	14,854	21,452
Finance costs (3)		(187,196)	(175,388)
Foreing exchange differences, net (2)		(119,689)	97,435
Investments in others companies		484	487
	¢	(291,547)	(56,014)

A description of the main transactions performed are included below:

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

(2) As a result of the transactions in foreign currency, the valuation of monetary assets and liabilities in foreign currency during the period ended on September 30, 2020, the Group recognized revenue in the amount of ¢364,285 and expenses in the amount of ¢483,974. This resulted in a net effect of (¢119,689) arising out of exchange differences (during 2019 the net effect amounted to ¢97,435 due to the ¢238,870 in revenue and ¢141,435 in expenses that were recognized). To appraise such monetary assets and liabilities at the end of the period, an exchange rate of ¢605.54 (¢580.40 in 2019) was used.

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

(Continued)

(in millions of colones)

Note 30. Restatement of financial statements

During the period ended on September 30, 2020, figures accumulated as of December 31, 2019 were reexpressed to incorporate an adjustment with a retroactive effect due to corrections. This adjustment, which was retroactively applied to the financial figures, is detailed below:

		Trade receivables, net (note 16)	Cash and cash equivalents (note 18)	Development reserve	Current accounts payable (note 21)
Balances as of December 31, 2019, previously reported	¢	148,433	203,412	2,378,255	122,362
Cumulative effect of adjustments due to corrections of mistakes of 2019					
Adjustment to quantify exchange rate differential (1)		(1,471)	(33,406)	(35,386)	510
2019		(1,471)	(33,406)	(35,386)	510
Subtotal as of September 30, 2019, restated. ***(Continued)***	¢	146,962	170,006	2,342,869	122,872

		Marketing (Note 27).	Loss due to the impairment of commercial debtors (note 27)	Exchange fluctuations, net (note 29)	Net surplus (deficit)
Balances as of September 30, 2019, previously reported	¢	187,940	-	103,609	78,998
Cumulative effect of adjustments due to corrections of mistakes of 2019					
Adjustment to quantify exchange rate differential (1)		-	-	(34,312)	(34,312)
2019		-	-	(34,312)	(34,312)
Cumulative effect of reclassifications in 2019					
Reclassification of Loss due to the impairment of commercial debtors		(3,873)	3,873	-	-
Subtotal as of September 30, 2019, restated. ***(Continued)***	¢	184,067	3,873	69,297	44,686

(Continued)

(1) Adjustment to quantify exchange rate differential:

As of September 30, 2020, the calculation to quantify the exchange rate differential of temporary bank accounts was corrected, as these were caused by pending compensations that drove a retrospective effect in these lines during the 2019 fiscal year.

(in millions of colones)

Note 31. Effect of the implementation of changes to the mobile terminals deferral policy and IFRS 16 “Financial Leases”.

During the period ended on September 30, 2020, figures accumulated as of December 31, 2019 were reexpressed to incorporate an adjustment with a retroactive effect due to changes in the mobile terminals deferral policy and IFRS 16 “Financial Leases”. The adjustments that were retroactively applied to these financial figures are detailed below:

		Property, Plant, and Equipment, net (note 8)	Equity investments (note 10)	Trade receivables, net (note 16)	Prepaid expenses (note 17)	Cash and cash equivalents (note 18)	Development reserve	Financial lease obligations (non-current) (note 19-c)	Financial lease obligations (current) (note 19-c)	Current accounts payable (note 21)
Subtotal as of September 30, 2019, restated:	¢	-	-	146,962	-	170,006	2,342,869	-	-	122,872
Balances as of December 31, 2019, previously reported		4,949,308	36,517	-	39,861	-	-	457,145	20,110	-
Effect of the implementation of changes to the mobile terminals deferral policy and IFRS 16 “Financial Leases”.										
Mobile terminals deferral policy adjustment (2)		-	-	-	(22,886)	-	(22,886)	-	-	-
First-time implementation of IFRS 16 “Financial Leases” adjustment (3)		607,826	(11,203)	-	-	-	86,766	451,050	58,806	-
Total Effect of the implementation of changes to the mobile terminals deferral policy and IFRS 16 “Financial Leases”.		607,826	(11,203)	-	(22,886)	-	63,880	451,050	58,806	-
Balances as of September 30, 2019	¢	5,557,134	25,314	146,962	16,975	170,006	2,406,750	908,195	78,916	122,872

		Operation and maintenance (note 27)	Operation and maintenance of equipment under lease (note 27)	Supplementary purchases and services (note 27)	Productive management (note 27)	Administrative (Note 27).	Marketing (Note 27).	Loss due to the impairment of commercial debtors (note 27)	Financial costs (note 29)	Exchange fluctuations, net (note 29)	Net surplus (deficit)
Subtotal as of September 30, 2019, restated:	¢	-	-	-	-	-	184,067	3,873	-	69,297	44,686
Balances as of September 30, 2020		374,615	86,877	183,950	51,842	100,412	-	-	(127,408)	-	-
Effect of the implementation of changes to the mobile terminals deferral policy and IFRS 16 “Financial Leases”.											
Mobile terminals deferral policy adjustment (2)		-	-	-	-	-	10,656	-	-	-	(10,656)
First-time implementation of IFRS 16 “Financial Leases” adjustment (3)		(3,805)	(6,983)	(65,735)	(48)	37	(414)	-	(47,980)	28,139	57,106
Total Effect of the implementation of changes to the mobile terminals deferral policy and IFRS 16 “Financial Leases”.		(3,805)	(6,983)	(65,735)	(48)	37	10,242	-	(47,980)	28,139	46,450
Balances as of September 30, 2019, restated	¢	370,810	79,894	118,215	51,794	100,449	194,309	3,873	(175,388)	97,435	91,136

(Continued)

(1) Adjustment, mobile terminals deferral policy:

As of September 30, 2020, a retrospective adjustment was made to the 2019 expense for the deferral of mobile devices under agreements entered by mobile clients. This type of expense was previously recorded as a correlation between revenue and expenses. Now, as a result of this policy change, this deferral has been rendered invalid and, instead, the entire expense of the mobile device (terminal) is recognized in the month when it is taken out of the inventory.

(2) Adjustment, implementation of IFRS - 16 “Financial Leases”:

The ICE implemented the IFRS 16 (issued by the IASB in January 2016), which establishes new or modified requirements in relation to lease accounting. It introduced significant changes to the accounting of the lessee, eliminating the differences between operating and financial leases, requiring the recognition of all of leases, except those short-term leases of assets or leases of assets of a low value. However, the accounting for lessors continues to make this distinction between types of lease. See note 6a.

The retrospective adjustments are detailed below:

a) Adjustment to implement BOT:

Some power purchase agreements under the Build, Operate, Transfer (BOT) modality include implicit financial leases, taking into account that, at the end of the lease term, the asset is transferred to ICE, and that the present value of future payments is equal to the fair value of the asset. These agreements have to be recognized in the Statement of Financial Position, recognizing the asset and the liability and its effects in the Statement of Profit or Loss.

As of September 30, 2020, figures that had been previously reported as of December 31, 2019 have been modified, as a result of the retroactive effect of the implicit lease in the BOT agreements. As of September 2019, a total of ¢281,031 in Property, plant, and equipment assets and ¢354,254 in financial lease obligations (current and non-current) have been recognized, in addition to their corresponding effects in the Statement of Profit or Loss.

b) Adjustment due to the implementation of major leases (Toro III, Garabito, Pailas, and Cariblanco):

As of September 30, 2020, figures that had been recognized as of December 31, 2019 have been modified as a result of the retrospective adjustment in the Statement of Financial Position of the assets associated to these major lease agreements. The adjustment in assets was in the amount of ¢309,561, in contrast with the ¢137,478 adjusted in liabilities. Amounts were also recognized in the Statement of Profit or loss as of September 2019. It was determined that, under the Business Alliance Agreement to develop the Toro III project, the parties are contractually bound, and each has parity of representation in relation to rights, obligations, and decision making regarding relevant activities. This lease should be recognized under the regulatory framework of the IFRS 11 “Joint Arrangements”, which establishes an interest of 50% for ICE, that is, the amount of ¢11,203. This joint agreement is excluded from equity investments and is recognized in the ICE’s assets and liabilities.

C) Adjustment due to the implementation of minor leases:

Minor lease agreements are those that were previously recognized as operating leases of real estate, offices in towers, or other spaces in buildings that, according to IFRS 16 “Financial Leases”, meet the characteristics to be deemed financial leases.

As of September 30, 2020, retrospective adjustments in the amounts of ¢17,235 and ¢18,173 have been recognized as assets and liabilities, respectively, in the Statement of Financial Position of December 31, 2019. In addition, the corresponding related effects have been recognized in the Statement of Profit or Loss as of September 2019.

Note 32. Tax regulations

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

(a) Strengthening of Public Finances

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

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

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

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

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

(b) Current income tax

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

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

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

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

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

(Continued)

(in millions of colones)

The income tax expense (revenue) is detailed below:

		For the period ended September 30,	
		2020	2019
Current		(584)	(394)
Deferred		4,307	199
	¢	3,722	(195)

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

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

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

Deferred income tax

In December 2018, Act No. 9635 “Strengthening of Public Finances”, was approved. This Act establishes, among others, changes to the General Sales Tax Act, by transforming it into Value Added Tax; as well as to the Income Tax Act, including the chapter that levies a tax upon capital gains and losses. As a result of the approval of this new law, CNFL recognized a deferred income tax liability for the revaluation of the lands, amounting to ¢4,307 (¢6,536 in 2019).

For the 9-month period ended on September 30, 2020 and December 31, 2019, the deferred income tax asset originates from the following temporary differences:

(in millions of colones)

		September 30, 2020	Recognized in profit or loss for the year	December 31, 2019
Deferred tax assets:				
Provision for statutory Christmas bonus and vacations	¢	160	-	160
Provision for severance benefits		157	-	157
Allowance for obsolete inventory		82	-	100
Inventories		44	-	26
Allowance for doubtful accounts		30	-	32
Provision for litigation		4	-	4
Leases		9	-	9
	¢	486	-	488

		December 31, 2019	Recognized in profit or loss for the year	December 31, 2018
Deferred tax assets:				
Provision for statutory Christmas bonus and vacations	¢	160	26	134
Provision for severance benefits		157	54	103
Allowance for obsolete inventory		100	-	100
Inventories		26	26	-
Allowance for doubtful accounts		32	(13)	45
Provision for litigation		4	(10)	13
Leases		9	9	-
	¢	488	92	395

(in millions of colones)

For the period ended on September 30, 2020 and for the year ended on December 31, 2019, the deferred income tax liability originates from the following temporary differences:

		September 30, 2020	Recognized in profit or loss for the year	Effect of the revaluation surplus allocation	Reversion of deferred income tax by price index	December 31, 2019.
Income tax liability:						
Revaluation of productive assets	¢	96,403	(4,372)	7,980	-	92,795

		December 31, 2019.	Recognized in profit or loss for the year	Effect of the revaluation surplus allocation	Reversion of deferred income tax by price index	December 31, 2018.
Income tax liability:						
Revaluation of productive assets	¢	92,795	(6,536)	-	(6,563)	105,894

(Continued)

(in millions of colones)

Unrecognized deferred tax assets

As of September 30, 2020, and December 2019, the subsidiary, CNFL, did not recognize in its statement of financial position, a deferred income tax asset, as -considering the financial results for the period and the forecasts for the upcoming year- CNFL does not believe that it will generate enough taxable income so as to recognize it as of such date. This amount is linked to other items:

		September 30, 2020		Decembre 31, 2019	
		Amount	Tax effect	Amount	Tax effect
Allowance for doubtful accounts	¢	695	208	1,686	506
Allowance for valuation of inventory		930	279	951	285
Provision for statutory Christmas bonus		2,638	791	327	98
Provision for severance benefits		4,934	1,480	4,194	1,258
	¢	9,197	2,759	7,157	2,147

(c) Value Added Tax

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

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

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

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

This tax is determined in a sworn tax return that cover one fiscal period. The affidavit must be filed by March 15 of each year and the tax is paid in four equal installments on the 15th day of March, June, September, and December of each year following the corresponding tax year-end. The payment of this tax shall be distributed in four equal installments, payable on the 15th day of March, June, September, and December of each year following the corresponding tax year-end.

The tax rate is set annually by SUTEL no later than November 30 of the corresponding tax year. The percentages established for this tax range between 1.5% and 3%, and the definition of the final rate shall be based on SUTEL's estimates of the income and costs of the projects to be executed in the following budget year. In the event that the tax rate is not defined by SUTEL in a timely manner, the applicable rate for the immediately preceding tax period shall be used.

(e) Parafiscal Contribution to Telephony Services

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

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

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

Act No. 8228, "Meritorious Firefighter Department of Costa Rica Act", dated March 19, 2002, was amended through Act No. 8992, "e Financial Strengthening of the Meritorious Firefighter

Department of Costa Rica Act", published in the Official Newspaper, "La Gaceta", on September 22, 2011. This Act amends articles 28 and 33 of Act No. 8228, "Meritorious Firefighter Department of Costa Rica", of March 19, 2002, and its amendments. In addition, it amends article 40 of Act No. 8228, "Financing of the Firefighter Department", and creates, as an additional source of revenue for the operations and sustained growth of the Costa Rican Firefighter Department, a tax equivalent to 1.75% (one point seventy-five per cent) of the monthly electric energy bill paid by each client.

(g) Customs Duties

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

(h) Other obligations

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

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

Note 33. Management of institutional financial risk

a) Accounting classifications and fair value

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

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

			As of September 30, 2020								
			Carrying amount					Fair value			
	Note		Fair Value - hedging instruments	FVTOCI - equity instruments	Financial assets at amortized cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets											
Equity investments	10	¢	-	5,749	-	-	5,749	-	-	5,749	5,749
Notes and other accounts receivable, net	11		-	-	9,060	-	9,060	-	-	-	-
Investments in financial instruments	12		-	50,214	-	-	50,214	-	50,214	-	50,214
Temporary investments	15		-	30,514	74,417	-	104,931	-	30,514	-	30,514
Trade receivable, net	16		-	-	186,443	-	186,443	-	-	-	-
Cash and cash equivalents	18		-	-	330,294	-	330,294	-	-	-	-
		¢	-	86,477	600,214	-	686,691	-	80,728	5,749	86,477
Financial liabilities											
Financial debt	19(a) 19(b)	¢	-	-	-	2,194,452	2,194,452	-	2,179,102		2,179,102
Financial lease obligations	19(c)		-	-	-	1,009,628	1,009,628	-	749,750	478,904	1,228,654
Accounts payable	21		-	-	-	145,993	145,993	-	-	-	-
Derivative financial instruments			3,568	-	-	-	3,568	-	3,568	-	3,568
Total financial liabilities		¢	3,568	-	-	3,350,073	3,353,641	-	2,932,420	478,904	3,411,324

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

As of December 31, 2019 *(Restated)* *

			Carrying amount					Fair value			
	Note		Fair Value Hedging Instruments	FVTOCI– Equity Instruments	Financial assets at amortized cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets											
Equity investments	10	¢	-	5,750	-	-	5,750	-	-	5,750	5,750
Notes and other accounts receivable, net	11		-	-	5,527	-	5,527	-	-	-	-
Investments in financial instruments	12		-	73,869	-	-	73,869	-	73,869	-	73,869
Temporary investments	15		-	-	120,316	-	120,316	-	-	-	-
Trade receivable, net	16		-	-	146,962	-	146,962	-	-	-	-
Cash and cash equivalents	18		-	-	170,006	-	170,006	-	-	-	-
		¢	-	79,619	442,811	-	522,430	-	73,869	5,750	79,619
Financial liabilities											
Financial debt	19(a) 19(b)	¢	-	-	-	2,139,303	2,139,303	-	2,158,487	-	2,158,487
Financial lease obligations	19(c)		-	-	-	987,111	987,111	-	498,280	476,539	974,819
Accounts payable	21		-	-	-	129,717	129,717	-	-	-	-
Derivative financial instruments			4,265	-	-	-	4,265	-	4,265	-	4,265
Total financial liabilities		¢	4,265	-	-	3,256,131	3,260,396	-	2,661,032	476,539	3,137,571

(*) See note 30 and 31.

Fair value of financial instruments

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

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

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

ii. *Equity investments*

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

iii. *Derivative financial instruments*

Cash flow hedges:

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

iv. *Financial debt and financial lease obligations*

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

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

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

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

   Discount rates between 0.94% and 9.70% in colones, and 0.78% and 23.14% in US dollars (10.52% in colones, and between 5.27% and 7.04% in US dollars, in 2019), the rates available to ICE, were used to determine the fair value of the long-term debt as of September 30, 2020.

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

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

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

Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

i) Risk management framework

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

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

Financial Risk Hedging Strategy."

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

Risk management policies and systems are revised annually to ensure that they reflect changes in market conditions and in Grupo ICE's activities. This review is performed by the Financial Division through the Financial Risk Process.

The use of financial derivatives is governed by the Policy for Financial Risk and Financial Hedging Management and meets international accounting best practices, which provide written principles on foreign currency, interest rate, and credit risks, the use of derivative and non-derivative financial instruments and excess liquidity investments. This task is performed as part of the financial process for investments.

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

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

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

The Institutional Investments Committee has the responsibility to control and follow up on the management of the temporary investments of Grupo ICE's electricity and telecoms businesses. This is the body to which the Financial Management delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) in respect of investment decisions, which include limits by instrument, currency, and sector, as well as risk levels related to portfolio composition.

This Committee approves the document known as “Investment Strategy", which is reviewed annually, as well as the document known as the "Management Limit to Operate ICE's Investment Portfolios", which is reviewed using the criteria of such Committee. In addition, there is a Financial Investment Policy Manual and a procedure for making international investments, which seeks greater and better diversification of temporary investments. Additionally, the risk level is monitored through Value at Risk (VaR), duration, modified duration, and concentration indicators, as well as credit risk, liquidity, and other indicators. Stress testing and back testing are used to measure the effectiveness of the model used.

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

ii) Credit risk

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

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

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

In the case of RACSA, credit risk is defined as the lack of control policies and measures to manage the level of credit granted to customers, which may jeopardize income and generate high financial losses as a result of expected losses. To mitigate this risk, RACSA applies customer quality controls through credit protectors and filters the portfolio of defaulting customers, developing customer profiles.

(in millions of colones)

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

Carrying amount of financial assests	Note		As of September 30,	As of December 31, 2019 *(Restated)* *
Cash and cash equivalents	18	¢	330,294	170,006
Equity investments	10		22,832	25,314
Investments in financial instruments	12		50,214	73,869
Temprorary investments	15		104,931	120,316
Guarantee and saving funds	13		230,065	222,645
Notes and other accounts receivable	11		71,405	68,744
Trade receivable	16		186,443	146,962
		¢	996,184	827,856

(*) See notes 30 and 31.

(i) *Accounts receivable*

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

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

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

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

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

- Collection management throughout the different stages, using diverse methods: text messages, calls, emails.
- Small and large scale collections management centralized in the Directorate of Billing and Revenue Management using three approaches according to the stage of the collections procedure and using differentiated strategies in each stage.
- Immediate suspension of electricity and telephone services after the bill's due date. The average collection periods for the Telecom and Electricity segments are 29 days and 31 days, respectively. Collection periods are determined by each segment (Collections Management Policy).
- Online collection process through contracts with external collection agents and banks, or internal collection through ICE's cashier windows.
- In the event that the outstanding balance is not collected, an administrative collection process begins 35 days after the electric services have been suspended and 90 days after the telecommunication services have been suspended. Administrative collection involves locating the customer and informing him/her about the delinquency, as well as notifying the credit protector thereof, so that the situation is included in the customer's credit history. For such purposes, ICE has companies dedicated to collections or coordinating payment arrangements with customers to mitigate defaults.
- Residual defaults (less than 1%) are studied to determine if they must be added to the judicial collections portfolio, which is executed by subsidiary Gestión de Cobro, S.A.

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

Trade receivables

Grupo ICE uses a collective impairment model for trade receivables segmented by type of service: electricity and telecommunications; and, in turn, these are segmented by type of client: General, Government, Subsidiaries, Private Banks, Foreign. All transactions classified under a segment have similar risk characteristics such as commercial conditions, timeframes, and business types.

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

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

(in millions of colones)

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

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

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

Since the portfolio consists of products with maturities under 12 months, the expected loss parameters are calibrated each year and the recent creation of an expected loss model does not incorporate the application of macroeconomic scenarios. However, annual monitoring of the model will help identify, in future valuations, the existence of a new factor that could affect the level of risk, and incorporate it into the calculation of the TP.

As of September 30, 2020, the maximum exposure to credit risk for trade receivables (see note 16), by geographic region, is described below:

Geographic region		As of September 30, 2020	As of Decembrer 31, 2019 *(Restated)* *
Local	¢	228,234	181,283
Foreign		(561)	44
		227,673	181,327
Allowance for impairment of trade accounts		(41,230)	(34,365)
	¢	186,443	146,962

(*) See note 30.

(in millions of colones)

As of September 30, 2020, the maximum exposure to credit risk, for trade receivables (see note 16), by type of counterpart, is described below:

Counterparty		As of September 30, 2020	As of December 31, 2019 *(Restated)* *
General borrowers	¢	187,293	149,426
Government		40,941	31,857
Private banks		179	196
Other		(740)	(152)
		227,673	181,327
Allowance for impairment of trade accounts		(41,230)	(34,365)
	¢	186,443	146,962

(*) See note 30.

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

As of September 30, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (undue)	1.36%	¢	76,692	1,040	No
1 to 30 days	1.11%		28,231	314	No
31 to 60 days	5.48%		17,722	971	Yes
61 to 90 diays	5.12%		11,132	570	Yes
More than 90 days	40.83%		93,896	38,335	Yes
		¢	227,673	41,230	

As of Decembre 31, 2019 *(Restated)* *	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	1.83%	¢	58,920	1,080	No
1 to 30 days	3.03%		28,690	868	No
31 to 60 days	8.77%		31,331	2,747	Yes
61 to 90 diays	6.53%		7,881	515	Yes
More than 90 days	53.49%		54,505	29,155	Yes
		¢	181,327	34,365	

(*) See note 30.

(in millions of colones)

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

		As of September 30,	As of December 31,
		2020	2019 *(Restated)* *
Current	¢	186,443	146,963
In legal and administrative collection		41,230	34,364
		227,673	181,327
Allowance for impairment of trade accounts		(41,230)	(34,365)
	¢	186,443	146,962

(*) See note 30.

The transactions to estimate the impairment of trade receivables are detailed below:

Non-trade receivables

		As of September 30, 2020	As of December 31, 2019
Opening balance	¢	34,365	42,152
Used		(875)	(28,345)
Lost for impairment recognized during the year		7,740	20,558
Closing balance	¢	41,230	34,365

The Company uses a collective impairment model for the other account receivables that are classified as “unidentified” and an individual model for the accounts receivable of customers with whom payment expectations are known.

For unidentified non-trade receivable, a loss rate is determined for accounts that are two or less years old, which is obtained as the ratio of the balance after two years over the total balance. For accounts that have a delinquency that exceeds 2 years, the loss rate used is of 100%.

The delinquency of the balance of non-trade receivables (see note 11), as well as its expected loss allowance, is detailed below:

(in millions of colones)

As of September 30, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	0.00%	¢	1,046	0	No
1 to 30 days	0.00%		10,867	0	No
31 to 60 days	0.00%		2,217	0	No
61 to 90 diays	0.00%		1,036	0	Yes
More than 90 days	16.70%		9,841	1,643	Yes
		¢	25,007	1,643	

As of Decembre 31, 2019	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	10.59%	¢	2,408	255	No
1 to 30 days	4.12%		2,451	101	No
31 to 60 days	10.65%		366	39	No
61 to 90 diays	4.79%		793	38	Yes
More than 90 days	10.04%		15,909	1,597	Yes
		¢	21,927	2,030	

Notes receivable

The Group uses a collective impairment model for trade receivables arising out of payment arrangements for each type of service (electricity and telecommunications). All transactions classified under a segment have similar risk characteristics such as commercial conditions, timeframes, and business types.

For the collective impairment estimate, the Group uses a matrix consisting of expected loss rates by a days of delinquency interval for each segment. The Group uses historical trends of delinquency and default of the portfolio to determine these loss rates.

Loss rates (TP) are obtained for each segment and, in turn, for each days of delinquency interval (in the case of electricity). This results in each transaction being assigned a loss rate depending on the days of delinquency it has at the time the impairment is estimated. The Group defines loss rates by calculating the percentage of the portfolio that will become impaired in one year, according to the days of delinquency at the time.

Since the portfolio consists of products with maturities under 12 months, the expected loss parameters are calibrated each year and the recent creation of an expected loss model does not incorporate the application of macroeconomic scenarios. However, annual monitoring of the model will help identify, in future valuations, the existence of a new factor that could affect the level of risk, and incorporate it into the calculation of the TP.

(in millions of colones)

The delinquency of the balance of notes receivable from payment arrangements (see note 11), excluding ¢2.006 MCRC (¢2.022 MCRC in 2019) in receivables from the *Empresa Propietaria de la Red*, as well as their expected loss allowance, are detailed below:

As of September 30, 2020	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	17.13%	¢	3,625	621	No
1 to 30 days	3.65%		958	35	No
31 to 60 days	31.13%		106	33	No
61 to 90 diays	82.35%		34	28	No
More than 90 days	44.84%		2,275	1,020	Yes
		¢	6,998	1,737	

As of Decembre 31, 2019	Weighted average loss rate		Gross carrying amount	Loss allowance	with credit impairment
Current (not expired)	31.27%	¢	1,164	364	No
1 to 30 days	37.04%		27	10	No
31 to 60 days	18.40%		163	30	No
61 to 90 diays	23.53%		34	8	No
More than 90 days	67.18%		2,117	1,420	Yes
		¢	3,505	1,832	

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

Credit risk is assessed, and investment ratings are monitored and followed-up, pursuant to the Investment Strategy and the risk profile determined by the Investments Committee.

The Group determines the financial risks to which financial operations related to financial instruments are exposed to, such as: short-term, mid-term and long-term financing; and treasury management related matters: lines of credit, bank letters, currency exchange, investments, securities issuance, among others.

During session No. 6148 of the Directive Council, held on September 07, 2015, a guideline was approved to grant authorization to the Finances Division, so that -, in compliance with the Financial Hedging Strategy and Risks Policy- it engage financial hedges to mitigate the currency exchange and/or interest rate risk in financial operations. This decision also rendered null the agreement taken by the Directive Council during session No. 6063 of October 23, 2013, which established a limit of US$970 and for colones/US Dollar hedges.

iii) *Liquidity Risk:*

Liquidity risks refers to the potential losses due to anticipated or forced sale of assets with unusual discounts and that do not allow fulfilling obligations, or otherwise due to a position not being timely disposed of, acquired, or covered through the establishment of an equivalent contrary position, in a timely manner.

Regarding liquidity risk, actions have been generated for the electricity and telecommunications businesses to provide a higher level of security in the projection of payments of the liabilities contracted, as well as a more rigorous stance on revenue projection, resulting in the ability to control treasury cash flows. These measures in the projection of liabilities and expenses, as well as for the revenue of both sectors, allow follow up and control of cash flow or liquidity risk, and also a better management of treasury operations, regarding the purchase and sale of foreign currencies and access to short- and medium-term lines of credit among others

The Finance Management performs short, mid, and long term cash flow projections that are used to estimate purchases of foreign currency, short-term financing, as well as anticipate liquidity needs.

Treasury management involves preparing the projected cash flows with the Company´s budget information. It also prepares, on a weekly basis, a schedule with the daily cash inflows and outflows, which allows visualizing the behavior of cash flows and determining the daily liquidity needs. As part of this process, in order to obtain the most accurate payment information, especially for those cases were, based on their amount, have a large impact in the cash flows, and in compliance with the treasury policies, the businesses and different areas of the company must send the payment schedule of the coming 12 months. In addition, an important input is the information obtained from the institutional payment system, which not only provides the exact amount to be paid, but also the maximum payment date, as established in the agreements.

Similarly, inputs and coordination with businesses regarding the behavior of revenue and the areas responsible for managing financing that allow a better matching are important to optimize Treasury Management in order to attain a better and timely attention of payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Likewise, the Treasury policies establish the terms of payment for providers, which must be executed on or before 30 days, once a week, except for those undertakings where an unavoidable payment date has been set, as of the event that originates the payment and of the presentation of invoice. Also, the policies establish wire transfers as payment method, and payment orders are processed through the group's ERP system.

Lines of credit are part of the instruments that Management uses to finance working capital needs, issuance of performance or bid bonds, opening, and refinancing of letters of credit, which use -throughout the years- have allowed them to become one of the most popular short term financing options.

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

(in millions of colones)

Exposure to liquidity risk

The following are the contractual maturities of the financial liabilities as of September 30, 2020, including estimated payments of interest and excluding the impact of the offsetting agreements:

		Carrying amount	Contractual Cash flow	12 months or lees	1-2 years	2-5 years	More than 5 years
Nom-current liabilities							
Securities payable	¢	1,087,493	1,832,117	190,622	546,117	465,126	630,252
Loans payables		898,807	1,242,028	109,684	216,959	370,140	545,245
Financial lease obligations (*)		918,554	1,458,941	46,204	234,336	404,213	774,188
Account payables		7,005	7,005	-	-	-	7,005
Total non-current liabilities		2,911,859	4,540,091	346,510	997,412	1,239,479	1,956,690
Current liabilities							
Securities payable		115,437	190,622	190,622			
Loans payables		92,715	165,931	165,931	-	-	-
Financial lease obligations (*)		91,074	129,570	129,570	-	-	-
Accounts payables		138,988	138,988	138,988	-	-	-
Accrued interest payables		29,047	29,047	29,047	-	-	-
Total current liabilities		467,261	654,158	654,158	-	-	-
	¢	3,379,120	5,194,249	1,000,668	997,412	1,239,479	1,956,690

(*) See note 31.

(in millions of colones)

The following are the contractual maturities of the financial liabilities of the Group as of December 31, 2019, including interest:

	Carrying amount	Contractual cash flows	12 months or lees	1-2 years	2-5 years	More than 5 years
Nom-current liabilities						
Securities payable	¢ 1,090,118	1,715,497	66,935	573,797	381,050	693,715
Loans payables	899,030	1,266,110	38,253	273,736	278,947	675,174
Financial lease obligations (*)	908,195	1,509,818	32,578	286,250	361,855	829,135
Account payables	6,845	6,845	-	-	-	6,845
Total non-current liabilities	2,904,188	4,498,270	137,766	1,133,783	1,021,852	2,204,869
Current liabilities						
Securities payable	63,026	71,678	71,678			
Loans payables	87,129	89,702	89,702	-	-	-
Financial lease obligations (*)	78,916	91,501	91,501	-	-	-
Accounts payables	122,872	122,872	122,872	-	-	-
Accrued interest payables	14,713	14,713	14,713	-	-	-
Total current liabilities	366,656	390,466	390,466	-	-	-
	¢ 3,270,844	4,888,736	528,232	1,133,783	1,021,852	2,204,869

(*) See note 31.

(Continued)

The incoming (outgoing) cash flows disclosed in the foregoing table represent the undiscounted contractual cash flows related to derivative financial liabilities held for risk management purposes and that usually are not settled before their contractual maturity. The disclosed information shows net cash flows for the derivatives that are settled in net cash and the incoming and outgoing gross cash flows for the derivatives that are simultaneously settled in gross cash.

Just as stated in note 19, the Group has secured banking loans that include debt restrictions. Failure to comply with such restrictions could entail that the Group pay the loan before its maturity, as stated in the foregoing table. Therefore, the conditions of loans are periodically monitored by the Revenue Process and are periodically reported to the Finance Management to make sure that they are complied with.

iv) *Market risk*

The market risk is the risk resulting from changes in market prices, such as exchange rates and interest rates, that affect Grupo ICE's revenue or the value of the financial instruments it holds. The goal of risk management is to manage and control exposure to this type of risk within reasonable parameters, while optimizing profitability.

ICE acquires derivative financial instruments to manage part of its existing market risks, which are valued according to the price established by their issuer. Hedge accounting is used for those qualifying instruments in order to mitigate volatility in the market prices of the financial instruments that have an effect on the group's profit or loss.

Derivative financial instruments are traded with first-tier banks with which non-disclosure agreements are in place, and all the documentation to trade derivatives has been formalized. ICE has made the decision, according to its risk strategy, to trade derivatives specifically for existing liabilities.

The financial operations assumed cover the following risks: variations in interest rates (domestic and foreign) and foreign currency exchange rates, which affect the cash flow results, the value of instruments, and others. To summarize, the group currently holds five derivatives: one to cover interest rate risks (interest-rate swaps), two to cover Japanese Yen to US Dollar exchange rate variations, known as Cross Currency Swaps, and two to cover colón-US dollar exposure, known as currency swaps.

During session No. 6148 of the Directive Council, held on September 07, 2015, a guideline was approved to grant authorization to the Finances Division, so that -, in compliance with the Financial Hedging Strategy and Risks Policy- it engage financial hedges to mitigate the currency exchange and/or interest rate risk in financial operations. This decision also rendered null the agreement taken by the Directive Council during session No. 6063 of October 23, 2013, which established a limit of US$970 and just for colones/US Dollar hedges.

Exchange rate risk

Grupo ICE is exposed to exchange rate risk to the extent that its revenue is in a functional currency while its purchases and loans are in other currencies. The largest exposure of ICE is in US dollars (United States dollars).

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

Some of the instruments that may be used are the following

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

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

INSTITUTO COSTARRICENSE DE ELECTRICIDAD [ICE] AND SUBSIDIARIES

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

Exposure to currency risk

As of September 30, 2020, Grupo ICE's exposure to currency risk is as follows:

	US dollars		Yenes		Euros	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Assets						
Investments in financial intruments, net	194	193	-	-	-	-
Notes other accounts receivable	3	8	-	-	-	-
Cash and cash equivalents	247	121	-	-	-	-
Trade receivable, net	9	9	-	-	5	1
Non-trade receivables	143	70	21	21	-	-
Restricted funds	1	1	-	-	-	-
Total Assets in foreign currency	597	402	21	21	5	1
Passive						
Securities payable	1,517	1,518	-	-	-	-
Loans payable	1,039	1,079	21,369	21,249	-	-
Finance lease obligations	976	1,169	-	-	-	-
Accounts payable	130	56	605	570	7	1
Accrued interest payable	18	75	132	122	-	-
Other liabilities	-	2	-	-	-	-
Income received in advance	2	-	-	-	-	-
Deposits received as guarantee	1	-	-	-	-	-
Total liabilities in foreign currency	3,683	3,899	22,106	21,941	7	1
Excess liabilities over assets	3,086	3,497	22,085	21,920	2	-

(Continued)

(in millions of colones)

The following exchange rates have been applied:

	Exchange rate to US Dollar	
	September	December
	2020	2019
Euro	1.17	1.12
Colones	605.54	573.53
Japanese Yen	105.71	108.50

In the case of foreign currency operations, Grupo ICE adheres to the provisions of Act No. 7558, Organic Act of the Costa Rican Central Bank [BCCR, its Spanish acronym], dated November 27, 1995. Article 89 of that Act states that institutions of the non-banking public sector shall execute their currency buy and sell transactions through the Central Bank of Costa Rica or state-owned commercial banks. These operations are to be performed using the valid exchange rates set for the date of the transaction by the Costa Rican Central Bank.

Sensitivity study

The following chart presents the sensitivity analysis results as of September 30, 2020 and December 31, 2019. It shows the potential impact of an increase or decrease in the US dollar to colón exchange rate. The Grupo ICE uses a 10% sensitivity index, which represents its best estimate of variations in the US dollar to colón exchange rate.

		September	December
		2020	2019 (*)
Sensitivity to an increase in the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,868,519	1,551,692
Net position in US dollars	USD	30,869	3,497
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	¢	2,055,371	1,706,862
Loss	¢	(186,852)	(155,170)
Sensitivity to a weakening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,868,519	1,551,692
Net position in US dollars	USD	3,086	3,497
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	¢	1,681,667	1,396,523
Gain	¢	186,852	155,169

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

(Continued)

Interest rate risk

Grupo ICE, through its Corporate Hedging and Risk Management Policies and Risk Strategy, has adopted a financial hedging policy that establishes that the minimum exposure percentage in variable rates is of 40%. To comply with the policy, hedging instruments with fixed interest rates are acquired, or in relation to fixed rate liabilities, by using interest rate swaps, the group covers the variability of cash flows that can be attributed to the interest rate risk.

Exposure to interest rate risk

The Grupo ICE has important assets and liabilities represented mainly by temporary investments, long-term investments; securities and notes payable; and financial lease obligations acquired to finance its commercial operations; all which are subject to interest rate variations.

The following notes describe interest rates related to financial assets and liabilities:

	Note
Notes and other account receivable	11
Invesments in financial instruments	12
Transitory investmensts	15
Securities payable	19(a)
Loans payable	19(b)
Finance lease obligations	19(c)

Sensitivity study

When managing interest rate risk, the Grupo ICE tries to reduce the impact of short-term fluctuations in its earnings. In relation to temporary investments, long-term investments, and securities and notes payable, as well as financial leases, any permanent change in interest rates shall have an impact in the company's earnings.

(in millions of colones)

During the period ended on September 30, 2020, the Group estimates that a one percent increase or decrease would have resulted in the following variations in the financial assets and liabilities it holds:

		Effects on Income-Espenditure Results			
		September		December	
		2020		2019	
		1% strengthening	1% weakening	1% Strengthening	1% weakening
Transitory investments	¢	1,049	(1,049)	1,203	(1,203)
Long-term financial investmentes		673	(673)	1,104	(1,104)
Long-term notes receivables		22	(22)	22	(22)
Short-term notes receivables		641	(641)	552	(552)
Long-term securiteis payables		10,875	(10,875)	10,901	(10,901)
Short-term securities payable		1,154	(1,154)	630	(630)
Long-term loans payable		8,988	(8,988)	8,990	(8,990)
Short-term loans payable		927	(927)	871	(871)
Long-term Finance leases payables		9,186	(9,186)	9,082	(9,082)
Short-term Finance leases payables		910	(910)	789	(789)
Net effect	¢	34,425	(34,425)	34,144	(34,144)

(Continued)

(in millions of colones)

b) Derivative Assets and Liabilities designated as cash flow hedges

As of September 30, 2020, cash flows related to derivative financial instruments are shown below. Expected cash flows take into account the cash flow forecasts of each derivative:

		Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 year	2-5 year	More than 5 years
Cross currency swap	¢	(3,452)	3,017	465	811	657	1,045	39
Cross currency swap		1,571	2,279	351	613	876	439	-
Forward staring swap		(1,264)	428	360	54	14	-	-
Non delivery currency swap stretch a-1		(147)	299	79	132	88	-	-
Non delivery currency swap 3 yeras		(276)	852	404	448	-	-	-
	¢	(3,568)	6,875	1,659	2,058	1,635	1,484	39

(in millions of colones)

As of Tuesday, December 31, 2019, cash flows related to derivative financial instruments are shown below. Expected cash flows take into account the cash flow forecasts of each derivative:

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

(in millions of colones)

In the case of cash flow hedges, expected cash flows for the primary instrument and the hedging derivative as of September 30, 2020, are presented below.

		Expected cash flows liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢	35,625	14,250	21,375

In the case of cash flow hedges, expected cash flows for the primary instrument and the hedging derivative as of December 30, 2019, are presented below.

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

(Continued)

(in millions of colones)

The general characteristics of positions exposed to market risk that are being hedged with derivatives, as of September 30, 2020, are presented below:

	PR003 stretch A D091319		**PFI -019 Dollar/colon stretch A-1 E15-96556**		**PR004 Yenes NEM120618ICE**		**PF-021 Yenes C34569**		**Dollar/colón three years C34812601207**	
Hedged debt	BID-1931 A/OC-		PR003		JIBC-CR-P3		JIBC-CR-P3		BONOS 2043	
Bank	Citibank		Citibank		Citibank		Scotiabank		Citibank	
Hedged principal amount	USD	42.7	USD	42.7	JPY	2,926.1	JPY	2,982.5	USD	200
Hedged amount per exchange rate	USD	-	CRC	22.785	USD	32.1	USD	24.1	CRC	113,216
Exchange rate	N/A		CRC	533	USD	91	USD	123.3	CRC	566.08
Contrat date	27/01/2009		18/09/2015		20/10/2009		03/12/2015		22/11/2017	
Hedge inception date or first payment	14/01/2010		14/01/2016		22/10/2012		20/04/2016		15/11/2017	
Hedge maturity date	14/07/2023		14/07/2023		20/04/2026		20/04/2026		15/11/2020	
Term	14 years		7 years,8 months y 5 days		14 years		10 years 5 months		3 years	
Base rate	Libor 6 Months		3.23%		-		-		6.375%	
Sprea over / under base rate	3.63%		-		2.20%		-		-	
Fixed rate	-		-		-		-		-	
Total fixed rate	6.86%		4.23%		5.11%		5.01%		-	
Strategy	Hedge		Hedge		Hedge		Hedge		Hedge	
Hedged risk	Interes rate		Exchage rate US dollar / colón		Exchage rate Yen / US dollar		Exchage rate Yen / US dollar		Exchage rate US dollar / colon	
Intrument	Interest rate swap		Non-deliverable exchage of payment flows		Cross-currency swap		Non-deliverble currency swap		Cross-currency swap	

(in millions of colones)

Capital Management

Article 17 of Chapter IV "Equity and Earnings" of the Act to Create the Costa Rican Electricity Institute, No. 449, dated April 8, 1949 states that "Grupo ICE's financial policy will be to reinvest the net profit it receives from the sale of electricity and from any other sources, to finance and execute national electrification plans, and drive the electric power industry."

The Government shall not receive any part of the earnings, as Grupo ICE cannot be considered a productive source of revenue for the Costa Rican Tax Authority. Instead, it is to use all means at its disposal to increase the production of electricity as a basic industry of the Nation.

The policy is to maintain a strong capital base so as to maintain general market confidence and secure the future growth of ICE

The goal is to maximize the return of the Group's capital and financial investments by adequately balancing the levels of debt and invested capital, while also minimizing risk.

In 2019, Grupo ICE's capital management remained unchanged, as the institution is not subject to any external capital requirements.

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

Debt to equity ratio		As of September 2020	As of December 2019 *(Restated)* *
Total liabilities	¢	3,952,952	3,823,594
(-) Cash and cash equivalent		(330,294)	(170,006)
Net debt		3,622,658	3,653,588
Total equity		2,698,457	2,785,341
Less:			
Amount accumulated in equity related to cash flow hedges		(12,735)	(3,813)
Adjusted equity	¢	2,685,722	2,781,528
Debt to equity ratio	¢	1.349	1.314

(*) See notes 30 and 31.

(in millions of colones)

Estimation of Potential Loss:

Pursuant to SUGEVAL's methodology, a risk rating and write-off percentage is assigned to each investment based on the maturity of the instrument, per what is stated in the following charts:

International ratings				
Term	Moody's	Standard & Poor´s	Fitch	Weighting factor
Short term		A1+	F1+	0%
	P1	A1	F1	1,0%
	P2	A2	F2	2,5%
	P3	A3	F3	5,0%
		B	B	7,5%
	C y otros	C y otros	C y otros	10,0%
Long term	Aaa	AAA	AAA	0%
	Aa	AA	AA	1,0%
	A	A	A	2,5%
	Baa	BBB	BBB	5,0%
	BA	BB	BB	7,5%
	B	B	B	9,0%
	Caa y otros	CCC y otros	CCC y otros	10,0%

Local ratings		
Term	Rating	Weighting factor
Short term	1, 2, 3	7,5%
	otros	10,0%
Long term	AAA - A	7,5%
	BBB – B	9,0%
	CCC y otros	10,0%

Category	International qualification		Local qualification	
	Long term	Short term	Long term	Short term
1	AAA y AA	F1, A-1 y P-1	-	-
2	A y BBB	F2, A-2 y P-2	-	-
3	BB	F3 y P-3	Scr-AAA y AAA(cri) scr-AA y AA(cri)	Scr-1 y F1(cri) scr-2 y F2 (cri)

Write-off percentages are applied as follows: investments of the Costa Rican Central Bank 0%; Government and Ministry of Finance, 0.5%; repurchase agreements are subject to a counterparty rating; and unrated issuances, which are classified as "other", are subjected to a 10%. Sovereign ratings and write-offs are applied to investments in US dollars in accordance with the tables above. The final result corresponds to the "potential loss".

(in millions of colones)

As of September 30, 2020, risk ratings reported for Grupo ICE are as follows:

Transmitter	Isin	Instrument	Rate risk
Bank Cathay	00CATAYE1035	Term certificate of deposit (global bond)	SCR2-
Central Bank of Costa Rica	CRBCCR0B5004	Fixed-rate Monetary Stabilization Bond	BB-
Bank of Costa Rica	0NR0ICE00810	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00811	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00812	Term certificate of deposit (global bond)	SCR1
Bank of Costa Rica	0NR0ICE00813	Term certificate of deposit (global bond)	SCR1
Improsa Bank	00BIMPRE1193	Term certificate of deposit (global bond)	SCR2
Improsa Bank	00BIMPRE6572	Term certificate of deposit (global bond)	SCR2
International Bank of Costa Rica -Miami-	0NR0ICE00358	Overnight BID 2747	BB+
International Bank of Costa Rica -Miami-	0NR0ICE00806	Overnight BID 3589	BB+
National Bank of Costa Rica	0NR0ICE00807	Term certificate of deposit	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1802	Term certificate of deposit (global bond)	AA+(cri)
National Bank of Costa Rica	USP14623AC98	BNCR Bond	AA+(cri)
Popular Bank And Community Development	00BPDC0BJW83	Term certificate of deposit (global bond)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CJY49	Term certificate of deposit (global bond)	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7168	BPDC bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7341	BPDC bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7556	BPDC bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7580	BPDC bond	AA+(cri)
PRIVAL Bank S.A. (Old BANSOL Solutions Bank)	00PRIVAE04I1	Term certificate of deposit (global bond)	SCR2
Proméricas Bank	00BPROME0411	Term certificate of deposit (global bond)	SCR2+
Trust Distinguished Fire Brigade	CRFTBCBB0051	FTBCB Bond	SCR AA
Financial Desyfin	00FDESYE03D0	Term certificate of deposit (global bond)	SCR2
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO Bond	SCR AAA
Government	CRG0000B20I1	Propiety title	BB-
Government	CRG0000B21I9	Propiety title	BB-
Government	CRG0000B56H7	Propiety title	BB-
Government	CRG0000B76H5	Propiety title	BB-
Government	CRG0000B82H3	Propiety title	BB-
Mutual Group Alajuela-Savings and Loan Housing	00MUCAPE02K7	Mortgage participation certificate	SCR2
Costa Rican Oil Refinery	CRRECOPB0012	Standard Recope Bonus	AAA (cri)
Costa Rican Oil Refinery	CRRECOPB0020	Standard Recope Bonus	AAA (cri)
Popular Bank SAFI Colones	FI-000000006	Investment fund Colones	scr AA2 (cr)
Popular Bank SAFI Dollars	FI-000000007	Investment fund Dollars	Scr AA3 (cr)
International Bank of Costa Rica -Miami-	N/A	Term certificate of deposit	A+.pa
National Bank of Costa Rica	N/A	Term certificate of deposit	AA+
National Bank of Costa Rica	Opens funds	Investment fund Dollars	Scr AA2 (cr)
National Bank of Costa Rica	N/A	Term certificate of deposit	AA+
Government	N/A	Zero-coupon Central Bank bond, dollars	BB-

(in millions of colones)

Note 34. Contingent assets and liabilities

As of September 30, 2020, Grupo ICE is involved in the following legal proceedings:

	Number of cases	Estimated amount of the claim	As of September 30, 2020	As of December 31, 2019
			Litigation provision	
Contingent assets - lawsuits filed by Grupo ICE:				
Execution of judgment (administrative)(1)	26	5,410	-	-
Ordinary administrative	25	4,853	-	-
Other	103	609	-	-
Total contingent assets	154	10,872	-	-

	Number of cases	Estimated amount of the claim	As of September 30, 2019	As of December 31, 2019
			Litigation provision	
Contingent liabilities - lawsuits filed against Grupo ICE:				
Proceedings before the Administrative and Civil Court of Finance	19	48,905	238	243
Ordinary (administrative) (2)	37	5,795	1,040	617
Administrative proceedings	84	686	41	44
Execution of judgment (administrative) (3)	9	1,775	44	44
Other (4)	89	4,537	245	441
Total contingent liabilities	238	61,698	1,608	1,389
Less non-current portion			18	418
			1,590	971

Below is the definition of the main types of proceedings and jurisdictions recognized by Grupo ICE:

a) Arbitration: the resolution of a litigation without going to an ordinary jurisdiction. The parties, by mutual consent, decide to appoint an independent third party, referred to as arbitrator, or an arbitration tribunal, that shall be in charge of settling the dispute. The arbitrator, in turn, shall be limited by the agreement made between the parties to enter the arbitration award. The arbitration award must be rendered in accordance with the applicable law chosen by the parties, or otherwise based on equity, if that is an option.

b) Contentious: a judicial proceeding to review a conduct under the guardianship of the Contentious Jurisdiction. The Contentious-Administrative Jurisdiction seeks to protect the legal situations of every person, guarantee or reestablish the lawfulness of any conduct of the Public Administration subject to the Administrative law, and hear and settle different aspects of the legal-administrative relationship. (Article 1 of the Contentious-Administrative Procedural Code).

c) Administrative: an administrative proceeding is processed at an administrative court and must comply with the provisions contained in the General Public Administration Act, article 214, paragraph one, to ensure that the Government best complies with its goals, while respecting the subjective rights and lawful interests of citizens, in accordance with legal systems.

Contingent assets:

Among the contingent assets and liabilities that have the largest claims are:

(1) Execution of Contentious Ruling

i. The ICE awarded to Verizon a tender to create telephone guides. Upon Verizon's breach, the ICE started a judicial proceeding in the contentious-administrative jurisdiction in 2005 to collect damages, and requested, as injunctive relief, the seizure of the monies that ICE had deposited. The following is the current state of the Process: "By means of a resolution issued by the First Chamber of the Supreme Court of Justice, the defendant is sentenced to pay for the damages caused by the contractual breach, per the provided estimates." As of September 30, 2019, the estimated amount is equal to ¢1,629 (¢3,781 as of December 31, 2019).

ii. The ICE, by means of docket 18-006651-1027-CA-9, filed a judicial proceeding due to its non-conformity with RECOPE's conduct under the fuel sale and purchase agreement. The reason for this was that the fuel delivered on May 2018 contained contaminants that made it unsuitable for what it was acquired: generation of electricity. Such an event is considered a latent defect. As of September 30, 2020, the ICE is awaiting the Preliminary Hearing's resolution. The amount estimated, as of September 30, 2020 and December 31, 2019, was ¢3,592.

(Continued)

<u>*Contingent liabilities:*</u>

(2) Ordinary Contentious Process

i. Docket No. 18-011595-1027-CA. The ICE is requested to reinstate $4.6 million that it had agreed under the acquisition of Cable Vision on December 05, 2013, which relate to tax contingencies payable to the Tax Authority, in relation to the fiscal years of such company before it was sold. ICE is opposed to the amount of such claim, since such an amount should be offset with the deductions from the 2010 to 2013 periods. As of September 30, 2020, the estimated amount is equal to ¢1,767 (¢1,674 as of December 31, 2019).

ii. Lawsuit filed by the company Hidroeléctrica Noble, S.A. against the Government, the CNFL and the *Instituto Costarricense de Electricidad*, under dockets no. 19-004362-1027-CA and 18-007030-1027-CA, which seeks that the CNFL be declared dissolved given that its social term of existence has expired. The lawsuit demands that ICE continue supplying the services of the CNFL and acquire all of the shares of the plaintiff at a price determined by the Administrative Fiscal Court of the Ministry of Finance. It also demands that ICE assumes all assets and liabilities of the CNFL and that all procedural and personal costs be awarded against it. The amount estimated, as of September 30, 2020, was ¢814.

(3) Execution of contentious proceeding under docket number 16-00648-1027-CA, whereby ARESEP and SUTEL filed a petition for a court order awarding personal costs, plus the corresponding legal interest. The sum of such costs was requested based on an estimate of damages caused by ICE and applying the corresponding fees and applicable interest rates. On March 25, 2019, the ICE answered the claim, rejecting the claims requested by both parties, and requesting that they each be awarded ¢1 in damages. As of September 30, 2020, and December 31, 2019, the estimated amount was equal to ¢1,731.

(4) Execution of proceeding under docket number 17-003025-1763-CJ, filed by the Costa Rican Social Security as a result of a judicial collection proceeding filed against ICE, whereby it is requesting that it pay the social security contributions owed to the IVM [Spanish acronym for "disability, old age and death insurance"] fund, in compliance with article 78 of the Workers Protection Act. An objection was filed by ICE, as it must reinvest its profit. In addition, the Costa Rican Social Security is charging ICE monies that are owed by its subsidiaries, and this is not admissible. As of September 30, 2020, and December 31 ,2019, the estimated amount was equal to ¢2,186.

The following proceeding, which involves one of its subsidiaries, is included within the Group's main contingent liabilities:

(Continued)

i. Ghella Spa Costa Rica-Docket No. 10-3471-1027-CA: This claim seeks to annul the limitations established in Addendum No. 1 of the Agreement for the design, construction, equipment, and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount is ¢21,047.

ii. Grupo Corporativo SARET: The plaintiff filed an early precautionary measure against *Compañía Nacional de Fuerza y Luz, S.A.* because the latter executed the performance bond to collect penalties. Furthermore, the plaintiff filed a formal claim for consequential damages, loss of profit and loss of opportunity. The estimated amount of the proceedings is ¢8,201.

iii. Instalaciones Inabensa, S.A.- Docket No. 5-1194-163-CA: This case was initiated for the collection of an estimated ¢11,138 in penalties during the execution of the project for underground electrification of San Jose. The plaintiff seeks the collection of claims and reimbursement of penalties filed during the stage of execution of the aforementioned project.

These legal proceedings are against the subsidiary *Compañía Nacional de Fuerza y Luz, S.A.* This subsidiary appealed such claims and, as of September 30, 2020, information is still lacking to establish the possible final resolution of the matter. Due to the uncertainty of how other claims will be settled, the Management of this subsidiary has not deemed it necessary to record any provisions to cover possible losses that might derive from such resolution.

In addition, as of September 30, 2020, the status of the P.H. Chucás and Hidrotárcoles projects, are presented below:

(a) <u>P.H. Chucás Project:</u>

The Chucás Hydroelectric Power Plant is a B.O.T. (Build, Operate and Transfer) project built by P.H. Chucás, S.A., and located in the counties of Mora and Atenas, provinces of San José and Alajuela, respectively. Its construction began on 2011, reason why its commissioning was expected for September 2014. However, due to delays in the construction process, the hydroelectric power plant was ready to start operating until November 2016. Due to this delay, and as stated in the power purchase agreement executed on February 3, 2011, the ICE proceeded to issue a fine for US$9.4 (approximately ¢5,092).

Thereafter, the company started an arbitration proceeding before the International Center for Conciliation and Arbitration [CICA, its Spanish acronym], an entity that is affiliated to the US-Costa Rican Chamber of Commerce (AmCham), claiming that excess costs incurred during the construction of the hydroelectric power plant had not been recognized, and that it be declared that ICE had no right to collect such fine, as the delay was caused by Force Majeure. The alleged excess costs amounted to the sum of US$173 (the budget allocated for the construction was US$107, even though the final cost reported to the Arbitration Tribunal was approximately US$280), which, according to the company, were caused by unforeseeable events such as geological changes, among others. In November 2017, the CICA issued an arbitration award in favor of P.H. Chucás, S.A., stating that the ICE had to pay the amount claimed for alleged excess costs, professional fees, among others. In addition, it declared that the ICE had no right to collect the criminal clause (the aforementioned penalty). The main argument used to sentence the ICE to pay the excess costs in the mentioned legal proceeding pointed out that the ICE was under the obligation of paying for the actual cost or value, to reestablish the financial equilibrium of the agreement and avoid the alleged enrichment, without cause, of ICE. The sentence states that ICE must pay US$112.7 and ¢6,328.

On December 15, 2017, the filed an Appeal for Annulment of an Arbitration Award before the First Chamber of the Supreme Court of Justice, alleging that certain defects that rendered the award null existed, such as: conflict of interest of the arbitrators, violation of due process, violation of the principle of impartiality, violation of arbitration procedural rules by refusing to grant the right to hear evidence and unfair treatment, lack of consensus in the case law, violation of rules of public order, among others. According to the Alternate Dispute Resolution Act, the filing of this appeal for annulment does not suspend the execution of the Award and, therefore, the contractor could request the execution thereof, even though, for such purposes, the contractor would have to file a judicial proceeding to "execute the award" against ICE and this would necessarily entail that ARESEP be a part thereof, as the entity that regulates the business of electricity and that is responsible for setting rates. The management of ICE and its legal advisors expect a positive outcome given the arguments in the appeal for annulment that was filed before the First Chamber of the Supreme Court of Justice, and the criminal claim filed against the arbitrators in the Public Prosecution Office, that is to say, they expect that the case will be finally settled in favor of ICE and, therefore, do not consider necessary to record any provision to cover any losses that could eventually arise from the resolution of the case.

As of June 27, 2019, by means of vote 2019000989, the First Chamber of the Supreme Court of Justice admitted appeal for annulment filed by ICE and annulled the Award, thus waiving the payment obligation. The “therefore” section of the ruling states:

“The appeal for annulment listed in pages one to sixteen, and eighteen, is admitted. The request to order Messrs. Diego Salto and Rafael Luna to certify if Grupo Enel or its companies have been clients of the law firms that they have directed during the last 10 years, or otherwise of Batalla Abogados and Consortium Legal, is hereby denied. The contestation is admitted. The appealed award is annulled. Notify this decision to the Bar Association so that they investigate the conduct of attorney-at-law Mario Pacheco Flores.”

The vote of the First Chamber was notified on September 6th, 2019. Upon analysis, the company determined to file a request for addition and clarification, as the vote did not make reference to the costs. In the request for annulment filed by ICE in December 2016, the plea included the following request: “Award costs to the party filing the request for annulment”. The Chamber’s decision is still pending.

On July 31, 2020 ICE received a notice from the International Center for Conciliation and Arbitration (CICA) of the Costa Rican-American Chamber of Commerce, with a new Arbitration Request made by P.H. Chucás, S.A. The ICE had 10 business days to answer that request.

On August 17, 2020, the ICE answered, rejecting the arbitration request stating that an admissibility requirement had not been met: the Directive Council’s lack of approval to settle disputes in an arbitration proceeding.

On August 19, 2020, the resolution of CICA was notified. This resolution stated that the arbitration proceeding is upheld and that arbitrators would be appointed. Consequently, on August 20, the ICE filed an appeal for revocation of the resolution entered at 16:00 hours on August 19, 20 by the CICA in relation to the continuity of the proceeding, which failed to address the request that ICE made in relation to the admissibility requirement. On August 25, the Directive Council voted not to approve the settling of conflicts in an arbitration proceeding.

On September 07, 2020, the ICE filed a request for a provisional injunctive relief before the Contentious-Administrative Court, with the aim of having all effects tending to the commencement and processing of the arbitration proceeding suspended, which, without each party’s consent, the CICA has the intention of directing, at the request of the company Chucás, until the admissibility of such an arbitration can be decided judicially.

On September 8, 2020, the provisional injunctive relief request was received by the Contentious Administrative Court.

On October 6, 2020, the ICE received a noticed from CICA stating that it had suspended the proceeding, based on the provisional injunctive relief request that was filed.

(b) Hidrotárcoles Project

The P.H. Capulín Project is a B.O.T (Build, Operate and Transfer) project started by the company P.H. Hidrotárcoles, S.A. that was contemplated in power purchase agreement no. 2012000023, entered by and between that company and ICE on April 24, 2012. This project is located in the counties of Turrubares and Atenas, in the provinces of San José and Alajuela. According to the terms of this agreement, once the start order was given, such company had to start building the power plant on August 2012, and the commissioning of the plant had to take place on August 2015. Nevertheless, due to delays in the construction process, on December 2015, the ICE started an administrative proceeding to settle the agreement and declare a penalty against the company Hidrotárcoles, S.A., for its breach of the guaranteed commissioning date, as only 20% of the works had been completed as of the date it had to start operating. Likewise, in accordance with what the agreement states, the ICE proceeded to notify the representatives of the Creditors, i.e., the *Banco Nacional de Costa Rica*, and inform it about its decision to settle the agreement, as well as of its decision that ICE would not continue with the project. All of this complied with the provisions of the power purchase agreement.

In light of the foregoing, in December 2015, the company filed a request for an injunctive relief before the Contentious-Administrative Tribunal in order to suspend the aforementioned proceeding. The Tribunal admitted such relief in January 2016, ordering the suspension of such proceeding. In addition, on February of that same year, the company Hidrotárcoles filed a lawsuit against ICE in the Contentious Tribunal, whereby it requested that several administrative acts that gave origin to the aforementioned proceeding be annulled, and whereby it aims that Hidrotárcoles be given the right to modify the guaranteed commissioning date and ICE be sentenced to pay damages, among other things.

The company Hidrotárcoles continued requesting the same injunctive relief to the Contentious Tribunal, not only in such lawsuit, but also at other times, in order to prevent ICE from continuing with the contractual resolution proceeding. Nevertheless, on February 21, 2017, the Court of Appeals of Contentious-Administrative Matters, finally rejected the injunctive measure, and, as of that resolution, ICE was allowed to continue with the aforementioned procedure. During the course of such proceeding, the company Hidrotárcoles also attempted, on several occasions, to stop it, with repeated actions to challenge the members of such body. It even filed a lawsuit against the officers that comprised such body, although all of the challenges were rejected, and the lawsuit was declared inadmissible by the Contentious Administrative Court in January 2018.

During the course of the administrative proceeding, the company, Hidrotárcoles, was guaranteed, at all times, its right to a defense and to a due process, in which it could file all of the claims and evidence that it deemed pertinent to contest the alleged noncompliance. This proceeding ended with a final ruling by the deciding body, by means of order No. 5201-10-2018, dated January

15, 2018, in which it approved the resolution of the agreement and the penalty against the company Hidrotárcoles, S.A., in relation to Public Tender No. 2006-000043-PROV.

On January 18, 2018, within the established time frame, the company Hidrotárcoles formally filed, against ICE, a motion for revocation of judgment with supplementary appeal and concomitant nullity against such final ruling. This motion for revocation was settled by the deciding body on March 12, 2018. Thereafter, on April 12, 2018, the Corporate Services Management settled the appeal and concomitant nullity motion, thereby exhausting the administrative instance. On May 03, 2018, the Contentious-Administrative Court notified ICE a request for a provisional injunctive relief filed by the BNCR, whereby it was requesting that the ICE take immediate possession and control of the Capulín San Pablo Hydroelectric Project while the dispute between the parties is settled.

Resolution 571-2018-T of the Contentious-Administrative Court, issued on October 05, 2018, rejected the request made by the BNCR. However, on October 11, 2018, the representatives of the *Banco Nacional de Costa Rica* filed a motion, which was admitted, to appeal such Resolution. During a hearing of the appeal held on November 27, 2018, the Court of Appeals rejected the measure that was filed and restated what it had ruled in Resolution 571-2018-T. On December 18, 2018, the BNCR filed a proceeding leading to a declaratory judgment against the *Instituto Costarricense de Electricidad* under file number 18-011428-1027-CA.

In addition, on May 03, 2018, the Contentious-Administrative Court notified a request for a provisional injunctive relief filed by Hidrotárcoles against the ICE and the BNCR, in which it requested that the execution of the following acts be suspended: ICE: the final act of contractual resolution and the resolution of the motion for revocation with appeal. BNCR: act to suspend the disbursements and act to execute the performance bonds. This request for an injunctive relief was rejected by the Contentious-Administrative Court by means of a resolution issued on April 26, 2018, and a hearing was granted to both parties. Thereafter, by means of resolution 420-2018-T, issued at 09:15 on July 18, 2018, the Contentious Court finally rejected such injunctive relief.

On July 24, 2018, Hidrotárcoles, S.A. filed an appeal against resolution 420-2018-T. During a hearing held on September 24, 2018, the Court of Appeals, by means of resolution number 397-2018-II, due to procedural aspects, returned the file to the first instance Judge so that he would settle the matter. On November 12, 2018, the first instance judge, by means of resolution 634-2018-T, fully rejected all of the scopes of the requested injunctive relief. Hidrotárcoles filed an appeal against resolution 634-2018-T and a hearing was scheduled for January 24, 2019. Such a hearing was suspended due to procedural aspects. The scheduling of a new hearing is still pending.

On May 09, 2019, the hearing relating to the appeal filed by Hidrotárcoles was held, and the request for the relief was rejected and, therefore, the contents of resolution 634-2018-T were upheld.

(Continued)

As of September 30, 2020, the Grupo ICE has allocated an amount equivalent to ¢1,608 (¢1.389 in 2019) to a provision related to the legal proceedings mentioned in the chart of contingent liabilities.

Due to the uncertainty of what the final results of such legal proceedings will be, as of September 30, 2020, the Grupo ICE had not allocated any additional funds to such provision to cover any possible obligations that could arise as a result of the final resolution thereof.

(in millions of colones)

Note 35. Balances and transactions with related parties

The balances and transactions with related parties are detailed below:

Business and financial transactions:

During the year, Grupo ICE executed the following business transactions with related parties:

		Sale of goods and services		Purchase of goods and services	
		For year ended			
		30/09/2020	30/09/2019	30/09/2020	30/09/2019
Construction services:					
Municipalidades	¢	1,730	3,036	2,071	2,372
Instituto Costarricense de Acueductos y Alcantarillados		1,886	867	2,479	2,121
Consejo Nacional de Vialidad		158	799	390	398
Consejo de Seguridad Vial		185	789	218	750
Caja Costarricense del Seguro Social		110	46	-	-
Engineering services:					
National Emergency Comission (CNE)	¢	-	5,211	-	-
Other related parties		970	430	2,204	-
Sale of energy:					
Government entities		4,140	4,133	-	-
Interest:					
Government entities		3,454	5,191	-	-
Autonomous institutions		461	876	-	-
State-owned financial entities		2,856	3,512	9,096	8,892
Other services:					
Subsidiaries		3,546	-		-
Government entities		19,124	18,437	2,305	1,497
State-owned financial entities (1)		-	-	27,718	41,025
Other related parties		5,574	5,898	770	895
	¢	44,195	49,224	47,253	57,949

(1) Lease installments under the Garabito, CariBlanco and Toro III Trusts.

The sales of goods and services to related parties are made at the list prices of Grupo ICE. The purchases are made at the market price to reflect the amount of goods purchased and the relationships between the parties

The following balances receivable and payable were outstanding at the end of this reporting period:

(Continued)

(in millions of colones)

		Receivable		Payable	
		30/09/2020	31/12/2019	30/09/2020	31/12/2019
Government entities		6,190	5,608	515	472
Autonomous institutions		5,990	6,874	5,886	5,723
Other related parties		5,349	2,266	-	-
	¢	17,529	14,748	6,401	6,195

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

The outstanding amounts are not guaranteed and are expected to be settled in cash. No guarantees have been granted or received. No expenses have been recognized in the current period or previous periods regarding doubtful accounts related to the amounts owed by related parties.

As of September 30, 2020, the Group maintained notes and leases payable with government financial institutions in the amount of ¢257,752 (¢235,549 in 2019).

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

		As of September 30, 2020	As of December 31, 2019
Cash equivalents	¢	6,578	7,639
Held to maturity		49,244	72,064
Restricted funds		2,075	1,978
	¢	57,897	81,681

As of September 30, 2020, interest receivable from securities issued by state-owned financial entities amount to a total of ¢827 (¢1,505 in 2019).

As of September 30, 2020, investments in the share capital of autonomous and non-governmental entities amounted to ¢22,832 (¢36,517 in 2019) (see note 10).

(in millions of colones)

Compensation of management's key staff

The compensation of directors and other key members of management during the 2020 and 2019 periods was as follows:

		As of September 30,	
		2020	2019
Short-term benefits	¢	4,437	3,794
Severance benefits		164	211
Post-employment benefits		246	250
Other long-term benefits		18	-
	¢	4,865	4,255

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.

Note 36. Information by segment

(a) Bases for segmentation

Grupo ICE has the following reportable segments:

- The Telecom Segment includes ICE-telecommunications sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA), and Gestión Cobro Grupo ICE, S.A. 81.11% (93.34% in 2019).

- The Electricity Segment includes the ICE-electricity sector, Compañía Nacional de Fuerza y Luz, S.A. (CNFL). and Gestión Cobro Grupo ICE, S.A., 18.89% (6.66% in 2019).

The information by segment is submitted to the highest authority in charge of the operational decision making of the Group with the purpose of allocating resources and evaluating the performance of each segment; it is focused on the different sectors of the Institute (business segment), which are exposed to different risks and yields.

The results, assets, and liabilities of the segment includes items directly attributable to a segment, as well as those that can be reasonably attributed. - Information related to each segment that requires reporting is stated in the following section.

(in millions of colones)

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

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

(c) Revenue and results by segments

An analysis of the revenue and the results of Grupo ICE from the operations by segment to

be informed is as follows:

		For the September 30, 2020 and December 31, 2019					
		Electricity		Telecom		Consolidated total	
Profit (loss) per segment		2020	2019 (*)	2020	2019 (*)	2020	2019 (*)
Income per segment	¢	609,606	645,393	431,654	451,048	1,041,260	1,096,441
Investment income		12,666	18,069	2,188	3,383	14,854	21,452
Finance costs		(173,121)	(165,444)	(14,075)	(9,944)	(187,196)	(175,388)
Foreign exchange differences, net		(112,344)	90,669	(7,345)	6,766	(119,689)	97,435
Income from investments in other companies		469	456	15	31	484	487
Deficit (Surplus), net		(76,510)	103,249	(4,621)	(12,113)	(81,131)	91,136

(*) See Notes 30 and 31.

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

The revenue among segments is as follows:

- The revenue from service sales of the electricity segment to the telecommunications segment amounts to ¢6,773 for 2020 (¢4,640 in 2019).
- The revenue from service sales of the telecommunications segment to the electricity segment amounts to ¢2,099 for 2020 (¢1,794 in 2019).

(Continued)

(in millions of colones)

The accounting policies of the segments that are informed are the same as the accounting policies of the Group. The profits by segment represent the profits earned by each segment without an interest in the results of the period, the investment income, other profits or losses, as well as the financial costs that cannot be allocated to a specific segment. This represents the measurement reported to the decision maker of the operating area for the purposes of allocating the resources and assessing the performance of the segments.

(d) Assets and liabilities by segments

		As of September 30, 2020 and December 31, 2019					
		Electricity		Telecom		Consolidated total	
Assets and liabilities by segment		2020	2019	2020	2019	2020	2019 (*)
Assets	¢	5,451,566	5,427,354	1,199,843	1,181,580	6,651,409	6,608,934
Liabilities		3,429,996	3,332,018	522,956	491,576	3,952,952	3,823,594

(*) See Notes 30 and 31.

In order to monitor the performance of the segments and allocation of resources among segments:

- There are no assets and liabilities that have not been allocated to the segments.

- All the assets and liabilities jointly used by the segments that have to reported are allocated according to the methodology to allocate the expenditures of the Corporation to the business where the financing percentages are established according to the drivers defined by each unit for the different services provided by the administrative centers and the service centers to each business unit. Each service has a specific measurement unit, and the allocation is based on the consumption of the services, which methodology is based on the ABC Costing (activity-based costing), as approved by the Board of Directors.

(in millions of colones)

(e) Other information of the Segment

		Depreciation and amortization		Additions to non-current assets	
		Period ended September, 30		Period ended September, 30	
		2020	2019	2020	2019
Telecom Segment	¢	104,478	98,303	28,192	49,101
Electricity Segment		155,991	148,357	57,455	32,981
Total	¢	260,469	246,660	85,647	82,082

(*) See Note 31.

Note 37. Subsequent events

a. COVID-19 Global Pandemic Emergency

The situation caused by the pandemic (COVID-19) that is being experienced worldwide has had a significant impact on the institution from different perspectives. On the one hand, the institution's ordinary operations had to be adjusted to the existing situation, given the measures that have been defined by the Government and the Health Authorities.

At an operations level, the ICE, complying with the measures to reduce onsite personnel, has made all of its virtual channels available to its customers so that they can access its services. In addition, there are many locations where customers can process their payments throughout the country that have not been affected by the measures.

Invoicing, collection, delivery, and insurance processes, as well as business support services, have been adapted to guarantee the continuity of the operations of both sectors (telecommunications and electricity). All applicable positions have been moved to telework.

In relation to business customers, they continue to be serviced remotely, thus guaranteeing the quality of the services provided.

In addition, technical staff is available 24 hours a day, 7 days a week, to ensure continuity of the services provided by the institution.

ICE’s power plants are operating as usual, according to their operational role and the requirements of the National Electrical System. It is clear that electricity is a vital service for the country, even more so in times of crisis. The Generation Business has maximized its efforts to guarantee the normal functioning of all processes, in particular the operation and maintenance of the power plants, thus confirming the Group’s commitment to supply electricity for Costa Ricans and the Regional Market.

As part of the analysis carried out, certain payment facilities have been provided to customers who have been affected by the pandemic, both in the electricity and telecommunications business. The impact of these measures, as well as the decrease in the demand for the services of both businesses as a result of the impact suffered by several productive sectors of the country, which have seen a significant reduction of their activities, has required a thorough and rigorous analysis to determine the decline in expected revenues and take the necessary actions to maintain the financial soundness of the company.

The adjustments made seek to ensure compliance with the covenants and to service all scheduled debt payments, as foreseen in the institutional budget for 2020. Additionally, the institution benefits from already-authorized credit lines with different financial institutions that it can use, if necessary.