INSTITUTO COSTARRICENSE DE ELECTRICIDAD AND SUBSIDIARIES (GRUPO ICE)

(An autonomous institution of the Government of Costa Rica)

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report thereon)

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Independent Auditors' Report

To the Board of Directors of
Instituto Costarricense de Electricidad

Qualified Opinion

We have audited the consolidated financial statements of Instituto Costarricense de Electricidad and Subsidiaries (Grupo ICE), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019 and January 1, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the years ended as of December 31, 2020 and 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the effects on the consolidated financial statements of the matter described in paragraph one of the *Basis for Qualified Opinion* section and except for the possible effects of the matters described in paragraphs two to four of that section, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grupo ICE as of December 31, 2020 and 2019 and January 1, 2019, and its consolidated financial performance and its consolidated cash flows for the years ended as of December 31, 2020 and 2019 in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As of January 1, 2019, as indicated in Note 17 "Financial debt", Grupo ICE held loan agreements in the amount of ¢1,595,354 (in millions) that set forth a number of financial covenants, which Grupo ICE failed to comply with. Grupo ICE requested and received the corresponding waivers from the financial institutions; however, the waivers did not meet the following aspects: reception before January 1, 2019, and coverage of a minimum of 12 months, as required by IFRS. As of January 1, 2019, Grupo ICE did not reclassify financial debt from non-current to current, for a total of ¢760,729 (in millions). Consequently, non-current and current liabilities were overestimated and underestimated, respectively, in that amount.

As of January 1, 2019, the consolidated financial statements included "Accounts payable" in the amount of ¢68,893 (in millions) on which we were unable to perform audit procedures. Consequently, as of January 1, 2019, we were unable to satisfy ourselves as to the completeness, existence and accuracy of those liabilities, and we were unable to determine the effects of that limitation on the net profit reported in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2019.

As of January 1, 2019, the consolidated financial statements included inventories for a total of ¢255,430 (in millions) in the accounts "Inventories" and "Other assets - inventory for investment projects/operating inventory" under property, plant and equipment (see Note 8), on which we were unable to conclude our audit procedures so as to satisfy ourselves as to their existence, given that we were unable to reconcile the results of the physical counts with the subledgers as of that date. We were also unable to satisfy ourselves as to the accuracy of those inventories since we were not provided with the supporting documentation required to verify the cost of purchase. Since opening inventories as of January 1, 2019 are considered when determining the consolidated financial performance and consolidated cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the consolidated statement of profit or loss and other comprehensive income and the net cash flows from operating and from investing activities reported in the consolidated statement of cash flows for the year ended December 31, 2019.

As of December 31, 2019, the consolidated financial statements include a cash balance of ¢203,412 (in millions) (January 1, 2019: ¢138,655 (in millions)), which include checking accounts that were reconciled with the balances of bank account statements. Those bank reconciliations include positive and negative reconciliation items pending analysis of ¢31,273 (in millions) and ¢32,748 (in millions), respectively (January 1, 2019: ¢44,615 (in millions) and ¢41,862 (in millions), respectively), for reconciliation of the recorded balances and the account statements. We were unable to satisfy ourselves as to the nature and reasonableness of those reconciliation items or determine whether adjustments might have been necessary to the cash balance and the balances of other accounts in the consolidated financial statements as of December 31, 2019 and January 1, 2019. During the year ended December 31, 2020, the entity finished reviewing those reconciliation items. However, we were unable to determine whether the consolidated profit or loss for 2020 contain any effect resulting from the adjustments made during the year that may correspond to prior periods and affect the balances presented in the consolidated figures as of December 31, 2019 and for the year then ended, and as of January 01, 2019.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Grupo ICE in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Costa Rica and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The key audit matter	How the matter was addressed in our audit
1. Revenue recognition: Recognition of revenue from the Telecom Segment is considered a key audit matter mainly due to the amount and the variety of products.	Our audit procedures in this area included control testing and substantive procedures, such as: • evaluating relevant IT systems and the design and operating effectiveness of controls on the recording of revenue transactions, which included involving our IT specialists to assist us in the audit of automated controls; • evaluating business process controls on the authorization of rate or price changes, the introduction of new plans to promote services, and the input of this information in the billing systems; • evaluating access controls and change management controls for the billing systems; • analyzing the reconciliation process to determine the nature and origin of the reconciliation items evidenced between the collections received and accounts receivable from customers; • performing analytic substantive testing on revenue; • recalculating prepaid income from prepaid products; • confirming the balances of prepaid services; and • assessing the reasonableness of the accounting records and the recognition of revenue in conformity with IFRS.

The key audit matter	How the matter was addressed in our audit
2. Employee benefits We considered this area to be a key audit matter mainly due to the judgments and estimates involved in determining actuarial and financial assumptions used to measure the employee benefits (severance) obligation and its impact on the presentation of Grupo ICE's consolidated financial statements.	Our audit procedures in this area included: • analyzing and evaluating the appropriateness of actuarial and financial assumptions used to measure the employee benefits (severance) obligation identified in the actuarial study performed by Grupo ICE, including the comparison of key assumptions with external data. The foregoing was performed with the support of our actuarial expert; • performing testing to establish the completeness, accuracy, and sufficiency of the databases used by the actuaries hired by Grupo ICE to measure the aforementioned benefits; • reviewing the actuarial study performed by management with the support of our actuarial expert, including the disclosures in the notes to the consolidated financial statements on the sensitivity analysis of certain assumptions used in the actuarial study.
3. Provisions and contingent liabilities We considered this area to be a key audit matter mainly because the elements considered for the measurement, recording, and disclosure of a provision or contingent liability involve a significant level of judgment.	Our audit procedures in this area included: • obtaining an understanding of the process designed for the determination, compilation, analysis, and follow-up of legal proceedings or lawsuits filed against Grupo ICE; • obtaining a breakdown of all legal proceedings, including the probability of a favorable outcome and its impact on the consolidated financial statements; and • based on a sample of selected cases, inquiring, discussing and assessing the reasonableness of the elements used to determine the probability of occurrence assigned to those cases.

The key audit matter	How the matter was addressed in our audit
4. First-time adoption of International Financial Reporting Standards We considered this area to be a key audit matter mainly due to the impact of the first-time adoption of IFRS on the classification, measurement and presentation of the accounts and balances of the entity's consolidated financial statements and disclosures.	Our audit procedures in this area included: • obtaining an understanding of the main differences between the former accounting framework applied by Grupo ICE and IFRS. • assessing the reasonableness of the transition adjustments determined as a result of the adoption of IFRS and verify the proper incorporation into the first consolidated financial statements, with IFRS adjustments. • verifying the proper disclosure of transition adjustments to IFRS and the sufficiency of the disclosures required by IFRS, including IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Grupo ICE's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Grupo ICE or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Grupo ICE's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Grupo ICE's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

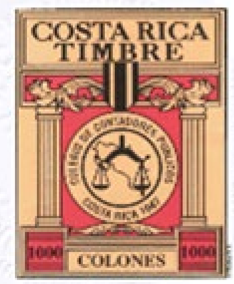
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Grupo ICE to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG



June 29, 2021

San José, Costa Rica
Randall Mora Acuña
Member No. 2429
Policy No. 0116-FIG-7
Expires 09/30/2021

¢1,000 tax stamp paid pursuant to Law No. 6663
and affixed to the original document

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

Consolidated Statement of Financial Position
(In millions of colones)

December 31,

Assets	Note		2020	2019	January 1, 2019
Non-current assets:					
Property, plant and equipment, net	8	¢	5,427,354	5,622,265	5,751,427
Intangible assets, net	9		107,612	111,656	91,684
Other assets			15,230	18,344	18,344
Equity investments	10		7,305	6,970	2,995
Notes and other accounts receivable, net	11		184,684	192,236	187,132
Investments in financial instruments	12		266,745	296,584	322,283
Total non-current assets			**6,008,930**	**6,248,055**	**6,373,865**
Current assets:					
Inventories	13		56,455	57,673	80,742
Notes and other accounts receivable, net	11		55,464	45,859	73,413
Investments in financial instruments	14		212,416	222,778	158,235
Trade receivables, net	15		175,829	146,962	120,518
Prepaid expenses			18,836	18,547	44,923
Other assets			3,708	2,165	3,406
Cash and cash equivalents	16		311,743	197,366	178,453
Assets held for sale			150	90	294
Total current assets			**834,601**	**691,440**	**659,984**
Total assets		¢	**6,843,531**	**6,939,495**	**7,033,849**
Liabilities and equity					
Equity:					
Paid-in capital		¢	155	155	155
Reserves			2,384,278	2,508,762	2,371,919
Retained earnings			319,371	309,802	318,559
Equity attributable to owners of Grupo ICE			2,703,804	2,818,719	2,690,633
Non-controlling interests			5,989	6,083	5,739
Total equity			**2,709,793**	**2,824,802**	**2,696,372**
Liabilities:					
Non-current liabilities:					
Bonds payable	17(a)		720,010	1,045,968	1,165,546
Loans payable	17(b)		1,435,803	1,445,132	1,471,366
Lease liabilities	17(c)		375,391	386,030	461,804
Employee benefits	19		436,657	413,048	356,998
Accounts payable	20		145,283	139,475	132,129
Contract liabilities	21		62,839	56,968	55,999
Deferred income - Government grants			15,203	8,959	6,495
Deferred tax liabilities	30		94,365	100,319	105,894
Provisions	22		25	683	1,258
Total non-current liabilities			**3,285,576**	**3,596,582**	**3,757,489**
Current liabilities:					
Bonds payable	17(a)		380,870	56,298	41,306
Loans payable	17(b)		131,408	119,009	123,988
Lease liabilities	17(c)		38,953	32,276	48,920
Employee benefits	19		98,086	94,119	101,094
Accounts payable	20		137,489	154,425	199,844
Contract liabilities	21		12,564	8,213	9,262
Deferred income - Government grants			281	281	281
Income tax payable			3,283	6,266	3,487
Accrued interest payable			14,412	18,446	22,437
Provisions	22		9,710	1,718	2,775
Other liabilities	23		21,106	27,060	26,594
Total current liabilities			**848,162**	**518,111**	**579,988**
Total liabilities			**4,133,738**	**4,114,693**	**4,337,477**
Total equity and liabilities		¢	**6,843,531**	**6,939,495**	**7,033,849**

The notes on pages 1 to 169 are an integral part of these consolidated financial statements.

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

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

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

For the year ended December 31,

	Note		2020	2019
Revenue	**25**	¢	**1,379,708**	**1,459,364**
Operating costs:				
Operation and maintenance			509,047	530,819
Operation and maintenance of leased assets			50,103	66,663
Purchases and supplemental services			115,446	142,900
Costs of sale			57,647	88,581
Production management			93,681	72,192
Total operating costs	26		825,924	901,155
Gross profit			**553,784**	**558,209**
Other income	27		59,332	54,815
Operating expenses:				
Administrative expenses			137,552	135,019
Selling expenses			133,353	165,818
Preliminary studies			24,840	25,745
Supplemental expenses			6,199	21,714
Impairment loss on trade receivables	31		13,048	21,347
Other expenses			35,136	26,736
Total operating expenses	26		350,128	396,379
Operating income			**262,988**	**216,645**
Finance income			36,271	36,619
Finance costs			(258,070)	(260,922)
Foreign exchange differences, net			(141,701)	126,977
Net finance costs	28		**(363,500)**	**(97,326)**
Share of profit of equity-accounted investees	10		35	(136)
(Loss) profit before tax			**(100,477)**	**119,183**
Income tax benefit	30		2,117	455
(Loss) profit for the year		¢	**(98,360)**	**119,638**
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Effect of actuarial losses for the year		¢	(4,766)	(34,745)
Loss due to assignment of rights and obligations of the subsidiary			-	(3,086)
			(4,766)	**(37,831)**
Items that are or may be reclassified subsequently to profit or loss				
Valuation of equity investments at FVOCI			453	508
(Loss) gain on fair value of cash flow hedges			(12,896)	44,050
Valuation of investments in financial instruments at FVOCI			267	1,419
			(12,176)	**45,977**
Other comprehensive income for the year, net of tax			**(16,942)**	**8,146**
Total comprehensive income for the year		¢	**(115,302)**	**127,784**
Profit attributable to:				
Owners of Grupo ICE		¢	(98,243)	119,387
Non-controlling interests			(117)	251
		¢	**(98,360)**	**119,638**
Total comprehensive income attributable to:				
Owners of Grupo ICE		¢	(115,202)	127,450
Non-controlling interests			(100)	334
		¢	**(115,302)**	**127,784**

The notes on pages 1 to 169 are an integral part of these consolidated financial statements.

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

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

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

For the year ended December 31,

	Note					Reserves						Retained earnings					
	Note	Paid-in capital	Legal reserve	Project development reserve	Actuarial gains (losses)	Valuation of equity investments at FVOCI	Valuation of non-derivative financial instruments and hedges	Development reserve	Capital reserve	Restricted profit from the capitalization of investment in subsidiary	Total	Retained earnings on subsidiaries	Profit (loss) for the year	Total	Equity attributable to owners of Grupo ICE	Non-controlling interests	Total equity
Balance as of January 1, 2019		¢ 155	14,679	71	22,620	66	(43,474)	2,315,577	-	62,380	2,371,919	318,559	-	318,559	2,690,633	5,739	2,696,372
Comprehensive income for the year:																	
Profit for the year		-	-	-	-	-	-	-	-	-	-	(14,301)	133,688	119,387	119,387	251	119,638
Other comprehensive income for the year:											-				-		
Effect of actuarial loss for the year	19	-	-	-	(34,833)	-	-	-	-	-	(34,833)	-	-	-	(34,833)	88	(34,745)
Net gain on fair value of cash flow hedges		-	-	-	-	-	44,050	-	-	-	44,050	-	-	-	44,050	-	44,050
Valuation of investments in financial instruments at FVOCI		-	-	-	-	-	1,419	-	-	-	1,419	-	-	-	1,419	-	1,419
Transfer due to assignment of rights and obligations of the subsidiary		-	-	-	-	-	-	(9,360)	-	-	(9,360)	6,274	-	6,274	(3,086)	-	(3,086)
Valuation of equity investments at FVOCI	10	-	-	-	-	513	-	-	-	-	513	-	-	-	513	(5)	508
Total other comprehensive income for the year		-	-	-	(34,833)	513	45,469	(9,360)	-	-	1,789	(8,027)	133,688	125,661	127,450	334	127,784
Comprehensive income for the year:																	
Appropriation to reserves		-	720	-	-	-	-	-	646	-	1,366	(730)		(730)	636	10	646
Transfer to capital reserve		-	(12,071)	-	-	-	-	133,688	12,071	-	133,688	-	(133,688)	(133,688)	-	-	-
Total comprehensive income for the year:		-	(11,351)	-	-	-	-	133,688	12,717	-	135,054	(730)	(133,688)	(134,418)	636	10	646
Balance as of December 31, 2019		155	3,328	71	(12,213)	579	1,995	2,439,905	12,717	62,380	2,508,762	309,802	-	309,802	2,818,719	6,083	2,824,802
Total comprehensive income for the year:																	
Loss for the year		-	-	-	-	-	-	-	-	-	-	9,986	(108,229)	(98,243)	(98,243)	(117)	(98,360)
Other comprehensive income for the year:											-			-	-		
Effect of actuarial loss for the year	19	-	-	-	(4,783)	-	-	-	-	-	(4,783)	-	-	-	(4,783)	17	(4,766)
Net loss on fair value of cash flow hedges		-	-	-	-	-	(12,896)	-	-	-	(12,896)	-	-	-	(12,896)	-	(12,896)
Valuation of investments in financial instruments at FVOCI		-	-	-	-	-	267	-	-	-	267	-	-	-	267	-	267
Valuation of equity instruments at FVOCI	10	-	-	-	-	453	-	-	-	-	453	-	-	-	453	-	453
Total other comprehensive income for the year		-	-	-	(4,783)	453	(12,629)	-	-	-	(16,959)	9,986	(108,229)	(98,243)	(115,202)	(100)	(115,302)
Comprehensive income for the year:																	
Appropriation to reserves		-	411	-	-	-	-	-	-	-	411	(417)		(417)	(6)	6	-
Transfer to capital reserve		-	-	-	-	-	-	(108,229)	293	-	(107,936)	-	108,229	108,229	293	-	293
Total comprehensive income for the year:		-	411	-	-	-	-	(108,229)	293	-	(107,525)	(417)	108,229	107,812	287	6	293
Balance as of December 31, 2020		¢ 155	3,739	71	(16,996)	1,032	(10,634)	2,331,676	13,010	62,380	2,384,278	319,371	-	319,371	2,703,804	5,989	2,709,793

The notes on pages 1 to 169 are an integral part of these consolidated financial statements.

Hazel Cepeda Hodgson
General Manager

Juan Carlos Pacheco Romero
Head of the Finance Department

Jeimy Sánchez Ureña
Accounting Process Coordinator

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

Consolidated Statement of Cash Flows
(In millions of colones)

For the year ended December 31,

	Note		2020	2019
Cash flows from operating activities				
(Loss) profit for the year		¢	(98,360)	119,638
Adjustments for:				
Depreciation	8		322,562	317,248
Amortization	9		26,006	25,701
Amortization of contract liabilities	25		(8,213)	(9,262)
Net realizable value of inventories	14		5,780	8,922
Net finance costs	28		221,799	224,303
Impairment loss on trade receivables	11, 31		13,048	21,347
Share of profit of equity-accounted investees	10		(35)	136
Loss on disposal of assets	8, 9		21,160	39,352
Employee benefits	19		10,415	1,056
Income tax benefit	30		(2,117)	(455)
Foreign exchange differences	28		140,387	(129,513)
			652,432	618,473
Changes in:				
Notes and other accounts receivable			(4,331)	25,278
Trade receivables			(40,672)	(46,989)
Inventories			(4,562)	14,147
Accounts payable			(11,128)	(38,073)
Contract liabilities			18,435	9,182
Employee benefits and other provisions			(11,934)	(18,483)
Other liabilities			(5,954)	461
Cash flows from operating activities			592,286	563,996
Income taxes paid			(6,820)	(3,305)
Net cash from operating activities			585,466	560,691
Cash flows from investing activities				
Interest received			26,897	17,017
Investments in financial instruments			53,973	(18,042)
Additions to property, plant and equipment			(115,901)	(205,389)
Additions to intangible assets			(20,803)	(27,934)
Government grants			6,244	2,464
Decrease in other assets			3,057	24,140
Net cash used in investing activities			(46,533)	(207,744)
Cash flows from financing activities:				
Proceeds from the issue of bonds payable	17 (d)		7,457	-
Amortization of bonds payable	17 (d)		(76,602)	(46,737)
Proceeds from the issue of loans payable	17 (d)		63,146	220,666
Amortization of loans payable	17 (d)		(137,082)	(188,865)
Amortization of lease liabilities	17 (d)		(33,145)	(64,820)
Interest paid	17 (d)		(249,644)	(256,814)
Net cash used in financing activities			(425,870)	(336,570)
Net increase in cash and cash equivalents			113,063	16,377
Cash and cash equivalents at beginning of year	16		197,366	178,453
Effect of movements in exchange rates on cash held			1,314	2,536
Cash and cash equivalents at end of year	16	¢	311,743	197,366

The notes on pages 1 to 169 are an integral part of these consolidated financial statements.

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

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

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

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

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

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

The main activities of the subsidiaries are as follows:

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

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

(Continued)

- *Radiográfica Costarricense, S.A.*

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

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

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

- *Cable Visión de Costa Rica*

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

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

As of December 31, 2020, CVCR has no commercial activities.

- *Gestión de Cobro Grupo ICE, S.A.*

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

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

Note 2. Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are Grupo ICE's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Grupo ICE is provided explained in Note 29.

The consolidated financial statements were authorized for issue by the board of directors on June 29, 2021.

Grupo ICE's accounting policies are detailed in Note 6.

Note 3. Basis of measurement

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

Items	**Measurement bases**
Derivative financial instruments	Fair value
Non-derivative financial instruments at fair value through profit or loss	Fair value
Debt and equity instruments at fair value through other comprehensive income	Fair value
Net defined benefit liability	Present value of the defined benefit obligation

Note 4. Functional and presentation currency

These consolidated financial statements are expressed in Costa Rican colones (¢), which is the monetary unit of the Republic of Costa Rica and ICE's functional currency.

All financial information contained herein is presented in millions of colones and has been rounded to the nearest unit, unless otherwise indicated.

Note 5. Use of judgments and estimates

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

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

(i) *Judgments*

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

- Note 8 – Establishment of useful lives of property, plant and equipment.
- Note 18 – Lease term: whether the Group is reasonably certain to exercise extension options.

(ii) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties as of December 31, 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Notes 31 – Measurement of ECL allowance for trade receivables and contract assets: key assumptions in determining the weighted-average loss rate.
- Note 19 – Measurement of defined benefit obligations: key actuarial assumptions
- Note 32 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of economic resources.

(iii) *Measurement of fair values*

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

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

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

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

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

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

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

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

Note 31 – Financial risk management includes additional information on the assumptions made when measuring fair values.

Note 6. Summary of significant accounting policies

Grupo ICE has consistently applied the following accounting policies to all periods presented in these consolidated financial statements and in preparing the opening statement of financial position as of January 1, 2019 for the purposes of the transition to IFRS, except if mentioned otherwise.

The accounting policies have been consistently applied by all the entities of Grupo ICE.

(a) Consolidation policies

(i) Subsidiaries

Subsidiaries are entities controlled by Grupo ICE. Grupo ICE 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(In millions of colones)

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

		Ownership interest		
		As of December 31,		January 1,
Subsidiaries	**Country**	**2020**	**2019**	**2019**
Compañía Nacional de Fuerza y Luz S.A. (CNFL)	Costa Rica	98.6%	98.6%	98.6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100.0%	100.0%	100.0%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100.0%	100.0%	100.0%
Cable Visión de Costa Rica, S.A. (CVCR)	Costa Rica	100.0%	100.0%	100.0%
Gestión de Cobro Grupo ICE, S.A.	Costa Rica	100.0%	100.0%	100.0%
Fideicomiso Centro Empresarial Sabana, Fideicomiso Red Avanzada de Nueva Generación, Fideicomiso PT Garabito, Fidecomiso PH Reventazón	Costa Rica	-	-	-
Joint operation				
Fideicomiso PH Toro III	Costa Rica	50.0%	50.0%	50.0%

The subsidiaries are entities controlled by ICE (parent company). The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The accounting policies of those subsidiaries have been changed when necessary to align them with Grupo ICE's accounting policies, including the application of the corresponding accounting adjustments.

Grupo ICE does not hold ownership interest in four trusts (Fideicomiso Centro Empresarial Sabana, Fideicomiso Red Avanzada de Nueva Generación, Fideicomiso PT Garabito and Fidecomiso PH Reventazón). However, according to the terms of the agreements whereby those entities were established, Grupo ICE is exposed to, or has rights to, variable returns from these special purpose vehicles and has the ability to affect those returns through its power over those entities. These entities perform activities related to the lease of assets that were constructed solely for use in the operations of Grupo ICE. All of the entities are domiciled in the Republic of Costa Rica.

(ii) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in Grupo ICE's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) *Loss of control*

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

(iv) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of Grupo ICE's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(v) *Interests in equity-accounted investees*

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

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

(vi) *Joint operation (Fideicomiso PH Toro III)*

Fideicomiso PH Toro III derives from an investment in the Toro III hydroelectric project made jointly by Grupo ICE and Junta Administrativa del Servicio Eléctrico Municipal de Cartago (Administrative Board of the Municipal Electricity Service of Cartago, JASEC). On March 9, 2006, ICE and JASEC subscribed a business partnership agreement for the design, financing, construction, and joint operation of the Toro III Hydroelectric Project, whereby both entities hold equal participation (50% each) in respect of rights and obligations. To execute the project, in January 2008, ICE and JASEC subscribed a trust agreement with Banco de Costa Rica, whereby ICE and JASEC act as trustors and beneficiaries and Banco de Costa Rica as the trustee. One of the responsibilities of the trustee was obtaining financing and managing the funds for the development of the infrastructure necessary to generate electricity and which will be subsequently leased to ICE and JASEC. The project will be constructed under the engineering and construction agreement subscribed by ICE. The trust agreement is for a term of 30 years. Pursuant to the terms and conditions of the partnership agreement, a number of responsibilities managed by mutual agreement are defined.

(Continued)

On January 26, 2012, ICE and JASEC subscribed an addendum to the trust agreement, whereby they commit to provide at least 20% of the funds necessary to finance the Toro III Hydroelectric Project, so that the trust obtains the funds necessary to finance the remaining portion. Accordingly, ICE made a contribution in kind (construction materials and labor) equivalent to ¢11,203. This contribution represents 10% of the funds necessary to finance the Toro III Hydroelectric Project. The remaining 10% was provided by JASEC.

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

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

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

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

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of ICE at the dates of the transactions.

(Continued)

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance costs.

However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedges are effective are recognized in other comprehensive income.

(c) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when Grupo ICE becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without no component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless Grupo ICE changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, Grupo ICE may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (if any). On initial recognition, Grupo ICE may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise

Financial assets – Business model assessment

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

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

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

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

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

(Continued)

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, see Note 6 (v) for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

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

See Note 6 (v) for financial liabilities designated as hedging instruments.

(iii) *Derecognition*

Financial assets

Grupo ICE derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - Grupo ICE neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

Grupo ICE derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Grupo ICE also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iv) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Grupo ICE currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(v) *Derivative financial instruments and hedge accounting*

Grupo ICE holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Hedge relationships used by Grupo ICE are fair value hedges and cash flow hedges.

(Continued)

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

Grupo ICE designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates.

At inception of designated hedging relationships, Grupo ICE documents the risk management objective and strategy for undertaking the hedge. Grupo ICE also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Grupo ICE books derivative financial instruments using hedge accounting, for which the requirements detailed by the policy must be met; otherwise, hedge accounting cannot be applied, even if the derivative instrument was obtained for hedging purposes.

<u>Fair value hedges:</u>

If a fair value hedge meets the criteria for recognition as such during the period, it will be booked as follows:

- Changes in the fair value of the hedging derivative, measured at a specific date, according to the agreed conditions and market conditions, are recognized in profit or loss for the year.
- Changes in the fair value of the hedged item that are attributable to the hedged risk are booked as an adjustment to the carrying amount of the hedged item and recognized in profit or loss for the year. This will apply even if the hedged item is measured at cost.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, then hedge accounting is discontinued prospectively. However, the substitution or successive renewal of a hedging instrument by another is not considered an expiry or termination if it is part of the documented hedging strategy and the risk management goal of the hedging does not change; thus, hedge accounting is not discontinued. The policies specified in designing and documenting the hedge relationship will be in agreement with the objectives and procedures followed by Grupo ICE to manage risk and will not be changed arbitrarily. Changes will otherwise be justified on the basis of fluctuations in market conditions and other factors and will be based on, and in agreement with, the objectives and procedures followed by Grupo ICE in managing risk

(Continued)

Cash flow hedges:

When a cash flow hedge meets the established conditions during the period, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, with the offsetting item in the liabilities subaccount; the ineffective portion of changes in the fair value of the derivative is recognized in profit or loss for the period.

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

Grupo ICE will discontinue cash flow hedge accounting prospectively in any of the following circumstances:

- If the hedging derivative expires or is sold, terminated or exercised. However, the substitution or successive renewal of a hedging instrument by another is not considered an expiry or termination if it is part of the documented hedging strategy and the risk management goal of the hedging does not change. In this case, the accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.

- If the hedge no longer meets the criteria for hedge accounting. In this case, the accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.

The transaction is not expected to occur, in which case any accumulated gains or losses of the hedging instrument recognized in equity, from the period when the hedging became effective, are reclassified from equity to the consolidated statement of profit or loss and other comprehensive income as a reclassification adjustment; the derivative will be also liquidated, affecting the corresponding accounts for valuation of the financial instrument, banks, and gains or losses in the statement of profit or loss due to disposal of the instrument.

(d) Asset policies

Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at historical cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

Property, plant and equipment include the following asset classifications:

Operating assets and other operating assets

Fixed and controlled assets that are used mainly in the production and supply of electricity and telecom services that are not intended for sale are recognized as "Operating assets and other operating assets". Assets used in administrative and operating activities and expected to be used for more than one accounting period are booked as "Other operating assets".

Right-of-use assets

Right-of-use assets are assets related to a contract that is, or contains, a lease.

The right-of-use asset is initially measured at cost, which comprises:

a) the amount of initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by Grupo ICE; and
d) an estimate of costs to be incurred by Grupo ICE 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. Grupo ICE may incur the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Grupo ICE has elected to not recognize right-of-use assets and lease liabilities for low-value leases and short-term leases. Grupo ICE recognizes lease payments for those leases as an expense on a straight-line basis over the lease term.

Right-of-use assets are presented in property, plant and equipment according to their use and nature.

Construction work in progress

Assets under construction that are expected to be incorporated into operating assets and used in administrative activities or to support the production and delivery of electricity and telecommunications services are booked by Grupo ICE as "Construction work in progress."

"Construction work in progress" is booked at construction cost (cost of purchase of materials, parts, etc.), plus any other costs related to their development, provided that they can be identified and reliably measured.

Borrowing costs directly attributable to the acquisition and construction of assets are capitalized as long as it is probable that future economic benefits will arise. The commencement date for capitalization is the date when ICE first meets all of the following conditions: a) it incurs expenditures for the asset, b) it incurs borrowing costs and c) it undertakes activities that are necessary to prepare the asset for its intended use. The capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete. Borrowing costs are no longer capitalized and are expensed to the period when construction work is interrupted, if this interruption extends significantly.

Foreign exchange differences arising from bank loans and accounts due to suppliers, acquired for construction work in progress are not capitalized during the execution of the works.

Costs incurred by the support and technical support areas of the entity's segments that are directly related to construction and can be reliably measured, but are not directly allocated to the works, are identified with the cost center "Production management costs for construction work in progress". These costs are allocated on a monthly basis to construction work in progress, as appropriate.

In the development or construction of works for the Electricity or Telecom Segments, obligations may arise related to restoration, disposal, and similar costs. These costs are estimated based on a formal closing plan and are subject to annual reviews by the responsible areas. Grupo ICE may consider any other actions performed by management, which have created a valid expectation of making an investment, before third parties to whom it must comply with its commitments or responsibilities.

If a decision is made to suspend a construction project, the costs recognized as assets as of that date should be expensed to the period, provided that they are not expected to generate future economic benefits.

Inventory for investment

The cost of physical goods in stock that will be used in the construction of productive assets, as well as in-transit inventory for investment, according to Incoterms, when all the risks and rewards arising from such assets have been transferred to ICE for use in activities inherent to productive assets, is booked as “Inventory for investment.”

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. “Inventory for investment” is included under “Property, plant and equipment.”

Inventory for investment is measured at cost.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to Grupo ICE. All other expenditure, including disbursements to internally generate goodwill and brands, are recognized in profit or loss as incurred. Additions, improvements or reconstruction are considered subsequent expenditure, which should be valued by the corresponding technical areas of Grupo ICE in order to determine whether they increase the asset’s useful life with the purpose of revising the depreciation calculation.

(iii) *Depreciation*

Components of operating assets, except land, are depreciated using the straight-line method when they are brought to the location and condition necessary for use, based on their estimated useful life and that of each significant part, where applicable. Other operating assets such as construction equipment, transport equipment, and machinery and maintenance equipment, used for provision of services and for project execution, whose depreciation does not correspond to a regular and uniform amount but to a variable cost based on use (hours, kilometers, or days), categorized as “machinery, equipment and vehicles depreciated by use”, are depreciated using the units of production method, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The selected method is applied consistently in all periods, unless there is a change in the expected pattern of consumption of the future economic benefits.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to Grupo ICE by the end of the lease term or the cost of the right-of-use asset reflects that Grupo ICE will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

To determine the useful life of each asset or group of depreciable assets, the technical areas defined by the segments must document the process performed to determine the useful life of each asset, taking into account the following:

- the estimated period during which the depreciable asset will be used in production
- specifications provided by the engineer or specialized technical personnel of the useful life of the depreciable asset, if it was acquired recently
- expectations of the engineer or specialized technical personnel, regarding the future use of the depreciable asset and its remaining expected useful life
- expected natural impairment
- technical or commercial obsolescence derived from changes or improvements in production, or a change in the demand of the products generated by the asset
- legal limits or restrictions on the use of the asset, and
- any other event or development that has an effect on the future use of the asset, such as changes in regulations that may reduce or make obsolete the plant and existing equipment in the foreseeable future.

Useful lives are reviewed at each reporting date to identify possible differences with the useful lives established at the review date. If a change in the useful lives is required in accordance with the analysis performed, a change must be made in the estimate, with a prospective effect, from the date on which the difference was identified.

Operating assets and other operating assets that completed their assigned useful lives and are still in use in the normal operations of Grupo ICE should be kept in the asset system database for control purposes. However, depreciation calculations should be suspended.

Each part of an item of property, plant and equipment will be separately depreciated when:

- It has a cost that is significant in relation to the total cost of the item.
- It has different patterns of consumption of future economic benefits or different useful lives.
- It has regular, significant, capitalizable inspections. Each time a new inspection is carried out, the former component must be derecognized and the current component recognized (if it has an accounting balance)
- It corresponds to the purchase of land and a building together since these assets are separate assets, where, with some exceptions, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets.
- It corresponds to land, the cost of which includes the cost of dismantling, removal, and restoration. The value of restoration will be depreciated over the period during which benefits were obtained by incurring those costs.

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

Depreciation of the operating assets begins on the acquisition or installment date when the assets are available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by Grupo ICE.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation does not cease when the asset becomes idle unless the asset is fully depreciated or its depreciation method depends on the asset's use.

Significant spare parts and replacement equipment are depreciated from the date that they are in the location and condition necessary for immediate use, i.e. in the location and condition necessary to operate in the manner intended by Grupo ICE. To the extent that they are installed as part of operating assets, the lower of the useful life of the equipment or the useful life of the main asset shall be used, assuming that the asset cannot be disposed and used in another asset. If the asset to which it is related will be replaced at the end of its useful life and the asset can be used for the replacement equipment, a longer depreciation period may be used.

Intangible assets

(i) *Recognition and measurement*

Assets without a physical substance that are expected to be used for more than one accounting period, or indefinitely, for administrative activities or activities other than normal operations are booked as "Intangible assets".

According to this policy, intangible assets are as follows:

- licenses, systems and applications
- rights of way or easements on land
- rights of use or rights of traffic related to submarine cable (submarine fiber optic infrastructure).

Intangible assets acquired from third parties with finite useful lives are valued at cost of purchase, plus any costs directly attributable to preparation of the asset for its intended use, less accumulated amortization and accumulated impairment losses.

Rights of way or easements and rights of use of submarine cable are recorded from the date the agreement is signed, at the amount agreed by Grupo ICE and the landowner, the submarine cable owner, and the submarine fiber optic infrastructure owner.

In the case of internally developed intangible assets, Grupo ICE classifies production of the asset into the following:

- research phase
- development phase.

Expenditure on research activities is recognized in profit or loss when it is incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Grupo ICE intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generate goodwill and brands, is recognized in profit or loss as incurred.

(iii) *Amortization*

Grupo ICE amortizes intangible assets for software licenses, applications and systems, and rights of use of submarine cable according to the term established in the agreement or the legal right with respect to those assets, on a straight-line basis. This term may be shorter, as defined by Grupo ICE regarding the expected use of the assets, or longer, if the rights are transferred for a limited term that may be renewed. Therefore, the useful life may include the renewal period(s), provided that there is evidence that the renewal has no significant cost for Grupo ICE. Grupo ICE assigns a useful life of three years to intangible assets for software licenses, applications and systems, for which no evidence exists of contractual or legal rights for their use and, also, when the responsible area has no supporting information on the assets' useful lives.

The systematic allocation of the amortization of such assets is booked by Grupo ICE as "Amortization-intangible assets" over the established term, starting on the date that the asset is available for use, using the straight-line method.

Rights of way or easements on land acquired with an indefinite useful life, i.e. when a defined term is not distinguishable but rather a permanent use in which the asset generates benefits to Grupo ICE, are not amortized.

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

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

Equity investments (investments in subsidiaries, joint operations and others)

The cost of financial instruments acquired to obtain ownership interest, significant influence or control in related parties such as subsidiaries, joint ventures, associates, joint operations and other investments, is booked as "Equity investments".

Investments in subsidiaries are consolidated in the financial statements of Grupo ICE.

Investments in associates and joint ventures are measured under the equity method and presented in Grupo ICE's consolidated financial statements.

Investments in joint operations are consolidated proportionally, recognizing Grupo ICE's share, as investor, of the assets, liabilities, revenues and expenses of the investee.

Other investments are recorded at fair value through other comprehensive income.

Notes and other accounts receivable

Notes receivable are booked at the value of the note receivable, which is the amount due from the debtor at maturity according to the agreed terms. That value is maintained for the entire term and until notes receivable are recovered.

Notes and other accounts receivable are derecognized when the rights are extinguished or transferred.

Loans that exceed one accounting period are presented as non-current assets, while the portion of notes and other accounts receivable expected to be recovered within the following year is booked under current assets.

Investments in financial instruments

Investments in debt instruments such as term certificates of deposit, foreign debt bonds, among others, are classified as "Investments in financial instruments".

Investments in financial instruments are initially measured at fair value. Subsequently, they are measured at fair value or amortized cost, depending on the business model under which they have been classified.

Premiums or discounts and transaction costs are booked as part of financial instrument assets and liabilities. They are subsequently recognized in the consolidated statement of profit or loss using the effective interest method, during the time that economic benefits are expected to be received from the assets or during the term of the liabilities.

Investments in financial instruments are derecognized when the rights are extinguished.

Inventories

"Inventories" include the cost of the physical assets warehoused by Grupo ICE and inventory in-transit for operations, in accordance with Incoterms, when the risks and rewards of the assets are transferred to ICE, for use in activities inherent to the operation and maintenance of productive assets and for administrative or management purposes, or the cost of assets that are held for sale.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average and includes disbursements made to purchase inventories and other costs incurred in bringing the inventories to their present location and condition. Inventories in transit are measured at the specific invoiced cost, plus the estimated import costs (freight, insurance and taxes).

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined, or if the estimated costs of completion or sale have increased, considering the formula for determining the net realizable value. The practice of writing down inventories below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made as to the amount of inventories expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

A new assessment is made of net realizable value in each subsequent period. When the circumstances which previously caused inventories to be written down below cost no longer exist, or when a clear evidence of an increase in the net realizable value exists arising from a change in the economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

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The balance of the allowance is periodically reviewed to ensure coverage of potential obsolescence or impairment.

Non-trade receivables

The right to demand payment from third parties for transactions other than the regular provision of Grupo ICE's services are booked as "Non-trade receivables."

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

"Non-trade receivables" are derecognized when the right to demand payment is exercised or when the accounts are written off against the allowance for loan losses due to non-payment.

Advance payments to creditors

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

Trade receivables

The rights to demand payment from customers for electricity and telecom services are booked as "Trade receivables" and are measured at amortized cost less any impairment losses.

"Trade receivables" are booked at the amount receivable of the document underlying the transaction, which indicates the amount payable by the customer, due date and agreed terms, depending on the type of service.

Receivables for services rendered are derecognized when the right to demand payment is exercised, when the contractual rights to the cash flows from the asset are transferred, when the contractual rights to the cash flows from the asset expire, or when the accounts are written off against the allowance for impairment losses due to non-payment.

Prepaid expenses

The cost of expenditures for the future receipt of goods and services under agreements subscribed is booked as "Prepaid expenses".

"Prepaid expenses" are booked at cost and amortized as the future economic benefits are consumed, which are derived from the use or consumption of fees paid.

Cash and cash equivalents

"Cash and cash equivalents" include:

- Banks: Cash deposited in checking accounts in both public and private, national or foreign financial entities and that will be used in ICE's operations are booked as "Banks."
- Cash equivalents: An investment is considered to be a cash equivalent if it is readily convertible into a specific cash amount and is subject to an insignificant risk of changes in its value; its maturity is three months or less from the acquisition date, provided there is no legal or constructive obligation to use those resources.

Impairment

(i) Non-derivative financial assets:

Financial instruments and contract assets

Grupo ICE recognizes loss allowances for ECL on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets.

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

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

- the debtor is unlikely to pay its credit obligations to Grupo ICE in full, without recourse by Grupo ICE to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

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

Grupo ICE considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. Grupo ICE considers this to be BBB or higher per Rating Agency Fitch Ratings or Baa or higher per Rating Agency Moody's Investors Service or its equivalent to any other risk rating agency.

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

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

Measurement of ECLs

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

ECL are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by ICE on terms that ICE would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for the financial asset because of financial difficulties.

Presentation of the allowance for ECL in the consolidated statement of financial position

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

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

Write-off

The gross carrying amount of a financial asset is written off when Grupo ICE has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, Grupo ICE follows the policy of writing off the gross carrying amount when the financial asset is declared uncollectible, according to Grupo ICE's bad debt policy, based on historical experience of recoveries of similar assets. Grupo ICE expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Grupo ICE's procedures for recovery of amounts due.

(ii) *Non-financial assets*

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Intangible assets with indefinite useful lives are not amortized; they are annually tested for impairment, either individually or by CGU.

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(e) Equity policies

Composition of capital

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

- national revenue that the law allocates and earmarks for ICE
- fees that the State acquired from the Municipality of San José under the local streetcar agreement
- any other government-owned asset transferred to ICE
- the country's water resources that have been or will be declared national reserves and any retained earnings resulting therefrom.

Retained earnings

Grupo ICE's retained earnings are as follows:

(i) *Retained earnings of subsidiaries*

Profit or loss of the subsidiaries of ICE at each accounting year-end is booked as "Retained earnings from subsidiaries". Retained earnings are adjusted for the effects of changes in accounting policies and corrections of prior period errors.

Reserves

Grupo ICE's reserves include:

(i) Legal reserve

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

(ii) Project development reserve

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

(iii) *Actuarial gains (losses)*

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

(iv) *Valuation of equity investments at FVOCI*

Changes in fair value of equity investments that are designated as such on initial recognition are booked as "Valuation of equity investments at FVOCI"

(v) *Valuation of non-derivative financial instruments and hedges*

This account reflects the results of the valuations of financial instruments acquired by Grupo ICE, including cash flow hedges, as investments measured at fair value through other comprehensive income.

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

For hedges, the value of positive or negative discounted cash flows of financial instruments determined as effective hedges is recorded as "Valuation of financial instruments".

The "Valuation of financial instruments" account is derecognized when the instrument matures, is traded or sold.

(vi) *Equity reserve*

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

(vii) *Development reserve*

Profit or loss obtained at the end of each accounting period, which pursuant to Law No. 449 must be earmarked for development of electricity and telecom services, is recorded as "Development reserve".

The development reserve is adjusted for the effects of changes in accounting policies and corrections of prior-period errors.

(f) Liability policies

Bonds payable

Obligations with third parties arising from the issue of debt securities (bonds) are booked under “Bonds payable”. These obligations are recognized at amortized cost based on the contracted debt.

The amortized cost of financial assets and liabilities includes premiums or discounts and transaction costs, which are realized in the consolidated statement of profit or loss using the effective interest method over the period in which economic benefits are expected to be obtained from such items or during the maturity term of the liabilities.

A partial or full decrease in bonds payable is recognized when Grupo ICE amortizes or settles any amount owed.

The portion of long-term securities expected to be settled within one year or less is booked as “Short-term bonds payable”.

Loans payable

Obligations with banking entities or financial institutions are recognized as “Loans payable”.

Loans payable are booked and measured at amortized cost, considering transaction costs, which are amortized using the effective interest method.

Grupo ICE reclassifies as current the portion of loans payable expected to be settled within one year or less and non-current debts enforceable in the short term due to noncompliance with covenants in accordance with the accounting policies for presentation of consolidated financial statements and events occurring after the reporting period. Therefore, the following is applicable:

a) If Grupo ICE does not comply with a covenant and it has not received a waiver before the closing date of the financial statements, and the waiver is not for at least the following 12 months, the total balance of the corresponding debt must be reclassified as short-term.

b) If Grupo ICE obtains a waiver on that noncompliance on a date subsequent to the closing date of the financial statements, it must be disclosed as it is considered significant for the financial statements as a whole. However, this subsequent event does not exempt Grupo ICE from classifying the total debt as a short-term (enforceable) debt.

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

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Grupo ICE's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

a. fixed payments, including in-substance fixed payments;
b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c. amounts expected to be payable under a residual value guarantee; and
d. the exercise price under a purchase option that Grupo ICE is reasonably certain to exercise, lease payments in an optional renewal period if Grupo ICE is reasonably certain to exercise an extension option and penalties for early termination of a lease unless Grupo ICE is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method, considering transaction costs, if any. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Grupo ICE's estimate of the amount expected to be payable under a residual value guarantee, if Grupo ICE changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Grupo ICE remeasures the lease liability (and makes the corresponding adjustment to the right-of-use asset) if and when:

a. The lease term is modified or there is a significant event or change in the circumstances of the lease that results in a change in the assessment of the buy option, in which case the lease liability is measured by discounting the lease payments made using a revised discount rate.
b. There is a change in future lease payments resulting from a change in an index, a rate or a change in the amounts expected to be payable under a residual value guarantee. In that case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used).
c. A lease agreement is modified and the modification in the lease is not booked as a separate lease, in which case the lease liability is remeasured based on the modified lease term, discounting revised lease payments using a revised discount rate at the date when the modification becomes effective.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and right-of-use asset. Related payments are expensed in the period in which the event or condition that originate them occurs.

Obligations with lessors for the acquisition of assets (as right-of-use assets) for more than one accounting period are recognized as "Lease liabilities" in the non-current liabilities section. The portion of these obligations that is paid within one year or less is presented under current liabilities.

The decrease in lease liabilities is made partially or in full when Grupo ICE amortizes or settles the amount owed.

Grupo ICE has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Grupo ICE recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Employee benefits

(i) *Defined benefit plans – severance benefits:*

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for Grupo ICE, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Grupo ICE determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. Grupo ICE recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

For permanent employees:

The estimated amount that Grupo ICE's management will require to pay severance benefits to its employees, whose existence is confirmed only by the occurrence of one or more uncertain events in the future, which are not entirely under Grupo ICE's control, is recorded as "Employee benefits."

The estimated amount required to pay severance benefits to employees, within one year or less, based on the result of an actuarial study of such a benefit, is recorded as a current provision for severance benefits.

The rules that Grupo ICE applies to pay benefits due to the termination of the employment agreement (severance benefits) are based on the *Law to Strengthen Public Finances* (Law No. 9635). A pronouncement from Grupo ICE established that once the law entered into effect on December 4, 2018, employees with at least 12 years of service would have the right to receive up to a maximum of 12-year severance benefits. All other employees would have the right to receive up to a maximum of eight-year severance benefits.

For personnel hired under payroll modality established in Grupo ICE's Autonomous Labor Regulations (RAL), in no event shall such severance benefits be paid beyond the last eight years of employment.

The payment of severance benefits is calculated based on the date of incorporation into the public sector, provided that the following conditions are met:

- employment continuity, i.e. when the date of incorporation into Grupo ICE is continuous (in working days) with the date of incorporation into the public sector
- no dismissal occurred from the public institution where the employee worked before joining Grupo ICE
- no severance benefits were paid by the public institution where the employee worked previously.

For project employees:

Project employees are hired to execute projects developed by Grupo ICE and are terminated once the work is completed. To cover the employees' severance benefits, an accrual of 9% of the employees' monthly gross salary is recorded in profit or loss.

(ii) *Defined contribution plans*

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if Grupo ICE has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Short-term benefits include:

Statutory Christmas bonus

Costa Rican legislation requires payment of one-twelfth of an employee's monthly salary for each month of service. The bonus is paid in December, even in the case of employee dismissal. Grupo ICE records a monthly provision to cover future disbursements related therewith.

Back-to-school bonus

ICE, RACSA, and CNFL follow the policy of recording an accrual for payment of the back-to-school bonus. The bonus corresponds to a percentage calculated on the monthly salary of each employee and paid on an accrual basis in January of each year. The obligation related to this benefit is calculated based on 8.19% of pretax employee compensation and is paid to all employees regardless of whether they have children or school-age children.

The back-to-school bonus is an adjustment additional to the cost-of-living salary increase, to cover the costs of any school-related expenses.

Vacation

Grupo ICE grants vacations to all employees pursuant to the provisions of the *Labor Code* and Chapter XXVII of ICE's *Personnel Statute*, in accordance with the modality of their employment contracts. The number of days to be granted is defined based on the time of service at ICE or other public sector entities where the employee has previously worked. This benefit is considered a short-term benefit.

Grupo ICE books a vacation accrual based on the employee's years of service with ICE, as follows:

- between 1 and 5 years of service, an accrual of 4.17% of pretax compensation
- between 5 and 10 years of service, an accrual of 6.11% of pretax compensation
- over 10 years of service, an accrual of 8.33% of pretax compensation.

For project employees, the vacation accrual is calculated as 7.5% of each employee's pretax compensation.

Occupational hazard

Grupo ICE follows the policy of recording an accrual for the payment of occupational hazard insurance expenses. This obligation is calculated based on the percentage established by the insurance company on the total employee salary.

Obligations arising from occupational hazards are liquidated through the payment made to the insurance company.

Accrued employer obligations are liquidated on an ongoing basis as the obligation is extinguished as a result of use or payment of benefits.

Accounts payable

Accounts payable are measured at the total amount payable under contractual obligations, which is equivalent to their amortized cost.

Prepaid income

Obligations arising from payments made in advance by customers for the rendering of services are recognized as “Prepaid income”. Prepaid income decreases as the services are rendered and the corresponding income is recognized.

Government grants

Government grants related to assets are initially recognized as deferred income at fair value when there is reasonable assurance that they will be received and that Grupo ICE will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Within the framework of the Japanese initiative known as Cool Earth Partnership, the Government of Japan donated US$10.5 million to Grupo ICE to build the Photovoltaic System located in Sabana Norte, with a power output of 3kW, which is expected to generate 3.5 kWh, and the Miravalles Solar Park, located in La Fortuna de Bagaces, with a power output of 1 MW, which is expected to generate 1.2 GWh. In addition, funds from the Project and Program Management Trust of Fondo Nacional de Telecomunicaciones (FONATEL) are recorded. This trust directly subsidizes the rendering of voice and internet bandwidth services to public service centers in the defined service area.

(Continued)

Provisions

Grupo ICE recognizes provisions when the following conditions are met:

- there is a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision must be the best estimate of the consideration required to pay the present obligation at the close of the reporting period, taking into account the corresponding risks and uncertainties.

Provisions are reviewed at each reporting date and adjusted to reflect the best estimate available.

(i) *Litigation*

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

The best estimate must be made of the obligation amount according to professional judgment and knowledge of events and circumstances related to the case being analyzed. For extremely exceptional cases in which no reliable estimate can be made, such limitation must be justified.

(ii) *Provision for mobile terminal warranties*

The "Provision for mobile terminal warranties" includes the expected cost of obligations, under local regulations on the sale of assets, according to the best estimate made by the corresponding technical and financial areas of the outflows required to settle Grupo ICE's obligations with its customers.

When warranties are supported by a third party (i.e. the supplier) that will be responsible for the total or a portion of the outflow required to settle the claim, the asset related to that right will be recorded only when the asset's receipt is virtually certain. In such event, the asset must be recorded separately from the provision liability.

(Continued)

Other liabilities

Other liabilities include:

(i) *Security deposits*

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

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

(ii) *Deposits from private individuals or companies*

Obligations arising from cash paid by individuals or companies to fully or partially defray the cost of works and to ensure fulfillment of services that are yet to be provided to Grupo ICE are booked as "Deposits from private individuals or companies".

"Deposits from private individuals or companies" are derecognized when the service is provided, the contract extinguishes, deposits are reimbursed to the guarantors, or the customer violates the terms and conditions of the contract.

(iii) *Valuation of derivative financial instruments*

Changes in the fair value of cash flow hedges are booked as "Valuation of derivative financial instruments" under liabilities. Their fair value changes in response to variations in the price of the underlying asset.

For instruments designated as hedges, the effect of changes in their fair value is classified either in other comprehensive income or in profit or loss for the year depending on the assessment of the hedge's effectiveness. The effect of the valuation of derivative financial instruments not classified as hedges is booked as finance costs in profit or loss for the year.

The "Valuation of derivative financial instruments" account is derecognized at a future date according to the contractual terms.

In the accounting for hedges of the foreign currency risk on fixed-rate debt as cash flow hedges, the net interest paid on the hedging instrument is recognized (cash flow swap).

In the accounting for hedges of the foreign currency risk on fixed-rate debt as cash flow hedges, Grupo ICE reverses the effect of foreign exchange differences arising from the measurement of the debt in a currency other than colones, with net interest earned on the hedge instrument, to recognize the reclassification of the derivative's effective portion from profit or loss to equity.

The valuation of the instrument will be recognized in equity or in profit or loss for the year depending on the instrument's effectiveness.

(g) <u>Operating income policies</u>

Income earned on the sale of goods, electricity and telecom services, and other income, both locally and abroad, are recorded as "Operating income".

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

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

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

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

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

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

(Continued)

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

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

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

Revenue and expenses that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenues and expenses.

Grupo ICE is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

- each party's enforceable rights regarding the service to be provided and received by the parties;
- the consideration to be exchanged; and
- the manner and terms of payment.

The stage of completion of revenue may be determined through different methods. Grupo ICE uses the method that measures reliably the services performed.

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

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

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

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

(i) Operating cost policies

The items of operating costs and operating expenses are presented by function in the consolidated statement of profit or loss and other comprehensive income. However, for accounting purposes, the nature of the cost or expense is considered, so they are identified by function based on the type of cost center.

Operation and maintenance

The cost of operating productive assets and keeping them in optimal working condition is booked as “Operation and maintenance”.

Operation and maintenance costs are presented at historical cost.

Operation and maintenance of leased assets

The depreciation of right-of-use assets and the operating and maintenance expenses of assets owned by third parties, used to provide electricity and telecom services, is booked as “Operation and maintenance of leased assets.”

Lease payments of low-value or short-term leases are recognized in profit or loss over the lease term in accordance with the contractual terms and conditions.

Supplemental services and purchases

Costs incurred by Grupo ICE to acquire electricity and telecom services from third parties are recognized as “Supplemental services and purchases”.

“Supplemental services and purchases” are booked at the cost incurred.

Selling expenses

The costs of mobile terminals and other devices sold are presented as “Selling expenses” and are booked at historical cost.

Production management

Costs incurred by the supporting areas of Grupo ICE's segments for the normal development of their technical and administrative management activities are recorded as "Production management."

Production management costs are booked at historical cost.

(j) Operating expense policies

Administrative

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

"Administrative expenses" are booked at historical cost.

Selling expenses

Expenses incurred by Grupo ICE to sell electricity and telecom services and other technical services provided to customers are presented as "Selling expenses." This includes activities such as design of services, customer service and collection.

"Selling expenses" are booked at historical cost.

Preliminary studies

Expenses incurred in the preliminary phases of projects for which execution is under analysis are presented as "Preliminary studies." This includes identification and prefeasibility studies for projects or works to be built.

Expenses for "Preliminary studies" are booked at historical cost.

Supplemental expenses

"Supplemental expenses" include:

- Other expenses incurred by Grupo ICE to ensure the quality of the construction and operation of works owned by third parties. This account does not include preliminary or pre-investment studies or transactions that, based on their nature, are not considered to be part of other items of operating expenses and costs.

- Subsequent mitigation and social compensation costs that exceed the amounts established in the environmental management plan and were not included in the "Baseline" [1] planned and controlled by Grupo ICE.

Supplemental operating expenses are measured at historical cost.

Other expenses

Expenses incurred in the rendering of operation services different from Grupo ICE's ordinary course of business are booked as "Other expenses."

"Other expenses" are measured at historical cost.

(k) Finance income and finance cost policies

Finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- the net gain or loss on the disposal of investments in debt securities measured at FVOCI; and
- impairment losses (and reversals) on investments in debt securities carried at amortized cost or FVOCI.

Interest income or expense is recognized using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest expense is recognized in the period unless it is directly attributable to the acquisition or construction of productive assets of Grupo ICE, in which case it is capitalized as part of the cost of the asset.

[1] Term used in the Environmental Management Plan that defines the current conditions that have an impact on the construction of works and where mitigation and social compensation measures and the corresponding budget and schedule are established.

(l) <u>Income tax</u>

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

(i) <u>Current tax</u>

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to the tax payable in respect of previous years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) <u>Deferred tax</u>

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that Grupo ICE is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the business plans for individual subsidiaries in Grupo ICE and the reversal of temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in Grupo ICE. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which Grupo ICE expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(m) Operating profit

Operating profit is the result generated from the continuing principal revenue-producing activities of Grupo ICE as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity-accounted investees and income taxes.

(n) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which Grupo ICE has access at that date. The fair value of a liability reflects its non-performance risk.

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

When one is available, Grupo ICE measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to providing pricing information on an ongoing basis.

If there is no quoted price in an active market, then Grupo ICE uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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If an asset or liability measured at fair value has a bid price and an ask price, then Grupo ICE measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If Grupo ICE determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Note 7. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after January 1, 2020 and earlier application is permitted; however, Grupo ICE has not early adopted the new or amended standards in preparing these consolidated financial statements.

A. Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

(i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

As of December 31, 2020, Grupo ICE has LIBOR-secured bank loans in the amount of MUS$530.39, as well as an interest rate derivative for US$42.7 that are subject to the LIBOR reform. Grupo ICE expects that the interest rate benchmark for these loans will be changed to SOFR or another benchmark considered convenient and acceptable, and once this is established by the market, no significant modification gain or loss will arise as a result of applying the amendments to these changes. As of the date of this report, the possible effect cannot be estimated due to market uncertainty.

(ii) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

As of December 31, 2020, Grupo ICE's financial statements are not affected because it does not have derivative financial instruments for hedge accounting.

After that date, the difference is recognized in profit or loss using an adequate basis during the life of the instrument, but never after the valuation is fully supported by observable market data and the transaction has concluded.

(iii) Disclosures

The amendments will require Grupo ICE to disclose additional information about the entity's exposure to risks arising from the interest rate benchmark reform and related risk management activities.

(iv) Transition

Grupo ICE plans to apply the amendments when established by the market. Application will not impact amounts reported for 2020 or prior periods.

(In millions of colones)

B. Other standards

The following new and amended standards are not expected to have a significant impact on Grupo ICE's consolidated financial statements.

- Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)
- *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*
- *Property, plant and equipment: Proceeds before Intended Use (Amendments to IAS 16)*
- *Reference to Conceptual Framework (Amendments to IFRS 3)*
- *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 Insurance Contracts.

Note 8. Property, plant and equipment, net

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

		As of December 31,		As of January 1,
		2020	2019	2019
Cost:				
Operating assets	¢	9,523,474	9,342,933	8,977,992
Other operating assets		409,523	398,789	400,912
Total operating assets - cost		9,932,997	9,741,722	9,378,904
Accumulated depreciation:				
Operating assets		4,463,169	4,190,929	3,904,091
Other operating assets		316,207	308,927	302,614
Total accumulated depreciation of operating assets - cost		4,779,376	4,499,856	4,206,705
Operating assets, net		5,153,621	5,241,866	5,172,199
Other assets:				
Construction work in progress		162,652	228,743	412,976
Inventories – inventory for investment projects/operating inventory		111,081	151,656	166,252
Total other assets		273,733	380,399	579,228
	¢	5,427,354	5,622,265	5,751,427

As of December 31, 2020, assets with a carrying amount of ¢966,519 (2019: ¢984,519) secure bank loans (see Note 17(b)).

(In millions of colones)

(i) Cost

The cost of property, plant and equipment is as follows:

		As of January 1, 2019	Additions and capitalizations	Disposals	As of December 31, 2019	Additions and capitalizations	Disposals	As of December 31, 2020
Land	¢	195,974	418	-	196,392	1,232	(1,879)	195,745
Buildings		419,376	7,114	(153)	426,337	6,161	(149)	432,349
Hydroelectric power generation		3,485,326	7,218	(7,313)	3,485,231	7,987	(4,441)	3,488,777
Thermal power generation		344,380	18	-	344,398	-	(3,815)	340,583
Geothermal power generation		595,532	193,760	(889)	788,403	-	-	788,403
Wind power generation		175,277	-	(870)	174,407	-	-	174,407
Solar power generation		12,732	166	-	12,898	173	-	13,071
Substations		490,936	8,340	(413)	498,863	25,820	(3,338)	521,345
Transmission lines		365,944	2,811	-	368,755	24,106	(987)	391,874
Distribution circuits		929,057	33,601	(6,506)	956,152	41,168	(5,683)	991,637
Public lighting		27,650	3,146	(871)	29,925	3,307	(1,121)	32,111
Control, communications and infrastructure equipment		281,455	6,926	(1,395)	286,986	2,735	(718)	289,003
Transport		716,244	28,042	(990)	743,296	29,628	(8,851)	764,073
Access		477,454	72,536	(4,138)	545,852	73,499	(3,517)	615,834
Civil and electromechanical		198,072	5,632	(39)	203,665	7,734	(8)	211,391
Platforms		240,875	20,151	(1,059)	259,967	5,967	(14,469)	251,465
Furniture and equipment		2,335	(184)	(17)	2,134	-	-	2,134
Transport equipment		101	-	(101)	-	-	-	-
Tower sites and land		19,272	-	-	19,272	-	-	19,272
Subtotal operating assets		8,977,992	389,695	(24,754)	9,342,933	229,517	(48,976)	9,523,474
Other operating assets		400,912	10,200	(12,323)	398,789	19,535	(8,801)	409,523
	¢	9,378,904	399,895	(37,077)	9,741,722	249,052	(57,777)	9,932,997

For the hydroelectric, thermal, geothermal, wind and solar power generation, substations and transmission lines categories, plant and equipment used in the power plants for generation and distribution are included.

(In millions of colones)

(ii) Accumulated depreciation:

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

		As of January 1, 2019	Depreciation	Disposals	As of December 31, 2019	Depreciation	Disposals	As of December 31, 2020
Buildings	¢	137,909	9,885	(110)	147,684	10,459	(94)	158,049
Hydroelectric power generation		1,144,202	60,324	(1,460)	1,203,066	60,295	(2,148)	1,261,213
Thermal power generation		128,861	8,993	-	137,854	8,892	(1,780)	144,966
Geothermal power generation		331,285	30,828	(557)	361,556	28,403	-	389,959
Wind power generation		67,351	10,505	(361)	77,495	10,139	-	87,634
Solar power generation		6,451	557	-	7,008	506	-	7,514
Substations		240,524	19,322	(190)	259,656	19,268	(2,579)	276,345
Transmission lines		119,841	11,427	-	131,268	11,409	(642)	142,035
Distribution circuits		347,957	29,502	(3,034)	374,425	32,779	(1,902)	405,302
Public lighting		14,293	1,664	(297)	15,660	1,858	(503)	17,015
Control, communications and infrastructure equipment		109,270	6,574	(1,202)	114,642	7,604	(599)	121,647
Transport		493,926	26,030	(971)	518,985	31,386	(8,761)	541,610
Access		395,861	50,881	(3,080)	443,662	55,918	(3,255)	496,325
Civil and electromechanical		186,800	12,311	(34)	199,077	11,870	(5)	210,942
Platforms		178,048	16,844	(1,033)	193,859	14,047	(13,919)	193,987
Furniture and equipment		1,429	216	(9)	1,636	200	-	1,836
Transport equipment		83	-	(83)	-	-	-	-
Tower sites and land		-	3,396	-	3,396	3,394	-	6,790
Subtotal operating assets		3,904,091	299,259	(12,421)	4,190,929	308,427	(36,187)	4,463,169
Other operating assets		302,614	17,989	(11,676)	308,927	14,135	(6,855)	316,207
	¢	4,206,705	317,248	(24,097)	4,499,856	322,562	(43,042)	4,779,376

(In millions of colones)

For 2020 and 2019, assets are depreciated using the following useful lives:

Asset group	Useful life in years
Buildings	40 to 50
Hydraulic power generation	15 to 60
Thermal power generation	15 to 60
Geothermal power generation	5 to 60
Wind power generation	5 to 50
Solar power generation	13 to 50
Substations	10 to 40
Transmission lines	20 to 40
Distribution circuits	8 to 30
Public lighting	10 to 30
Control, communication and infrastructure equipment	5 to 50
Transport	2 to 25
Access	2 to 20
Civil and electromechanical	5 to 50
Platforms	3 to 20
Furniture and equipment	4 to 20
Transport equipment	5 to 25
Tower sites	3 to 25
Other operating assets	3 to 25

(Continued)

(In millions of colones)

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

Other assets in property, plant and equipment are as follows:

		Construction work in progress	Inventory for investment projects / operating inventory	Total
As of January 1, 2019	¢	412,976	166,252	579,228
Additions		237,765	84,863	322,628
Disposals		(23,769)	(2,687)	(26,456)
Capitalizations		(406,308)	(96,772)	(503,080)
Interest		8,079	-	8,079
As of December 31, 2019		228,743	151,656	380,399
Additions		168,043	54,934	222,977
Disposals		(5,727)	(698)	(6,425)
Capitalizations		(230,529)	(94,811)	(325,340)
Interest		2,122	-	2,122
As of December 31, 2020	¢	162,652	111,081	273,733

The capitalization rate used to determine the amount of capitalizable loan costs was 0.84% (2019: 3.09%).

(Continued)

A description of the main construction works in progress as of December 31, 2020 and 2019 is provided below:

(a) *Borinquen Geothermal Project*

This project includes costs in the amount of ¢46,993 (2019: ¢34,525) incurred in the development of the geothermal project known as Borinquen 1, located on the Guanacaste mountain range, on the pacific slope of Rincón de la Vieja Volcano. It will have an estimated power output of 52 MW, with an estimated cost of US$375.

(b) *RANGE Project, Stage II*

The balance as of December 31, 2020 is ¢20,240 (2019: ¢3,188). It includes design, construction and maintenance costs of the New Generation Access Network (Red de Acceso de Nueva Generación, RANGE E-II). During the second stage of the trust agreement, priority districts of commercial interest were identified to fully substitute the copper network with the new fiber optic access network with Passive Optical Network (PON) technology, with a total estimated budget of US$108.

(c) *Installation of residential services*

This is a permanently executed project. It is used to book all costs incurred by technical personnel in the installation of new residential services in the whole country. These costs are capitalized as the work is individually completed. The main goal of these solutions is to satisfy the needs of residential customers, who demand the latest generation services. As of December 31, 2020, the balance is ¢14,068 (2019: ¢9,106).

(d) *Last mile substitution*

This project includes the costs incurred to substitute (migrate) the copper network of existing customers in the areas of initial implementation of the RANGE Stage II and TIC Heredia projects, with fiber optic to the end user (connected home) for houses, businesses, companies, etc. that allows providing high-technology multiplay services with ultra-wideband. As of December 31, 2020, the balance is ¢12,169 (2019: ¢8,083). The total estimated budget is US$46.

(e) *Extension of the LTE network*

As of December 31, 2020, the balance of ¢10,236 (2019: ¢12,621) corresponds to costs incurred in the execution of the LTE network project. The project has a total budget of US$47.6. Its goal is to provide more bandwidth and data transmission speeds, matching the demand and the needs of end users. This is aligned with ICE's goal to continue working on the expansion of coverage and capacity, so as to provide a better customer experience.

(In millions of colones)

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

As of December 31, 2020, there are 12,647 depreciable assets, of which 3,852 assets with a carrying amount of ¢30,917 have not reported usage during 2019-2020 (2019: 3,021 assets with a carrying amount of ¢19,523 reported no usage during 2018-2019).

Note 9. Intangible assets, net

Intangible assets, net are as follows:

		December 31,		January 1,
		2020	2019	2019
Intangible assets with a definite useful life:				
Licenses, systems and applications (1)	¢	132,940	178,813	135,360
Submarine cable rights (2)		70,451	70,451	66,392
		203,391	249,264	201,752
Accumulated amortization:				
Licenses, systems and applications (1)		(84,073)	(130,735)	(103,035)
Submarine cable rights (2)		(49,429)	(44,457)	(39,655)
Accumulated amortization		(133,502)	(175,192)	(142,690)
		69,889	74,072	59,062
Intangible assets with an indefinite useful life:				
Rights of way and easements (3)		34,910	34,771	29,809
Other		2,813	2,813	2,813
		37,723	37,584	32,622
	¢	107,612	111,656	91,684

(In millions of colones)

Movement in intangible assets is as follows:

	Licenses, systems and applications (1)			Submarine cable rights (2)			Rights of way and easements (3)			Other			Total		
	As of December 31,		As of January 1,	As of December 31,		As of January 1,	As of December 31,		As of January 1,	As of December 31,		As of January 1,	As of December 31,		As of January 1,
	2020	2019	2019	2020	2019	2019	2020	2019	2019	2020	2019	2019	2020	2019	2019
Cost:															
Opening balance	¢ 178,813	135,360	113,216	70,451	66,392	66,392	34,771	29,809	29,266	2,813	2,813	2,813	286,848	234,374	211,687
Additions and capitalizations	22,209	37,267	27,142	-	4,059	-	139	4,962	531	-	-	-	22,348	46,288	27,673
Transfers	28	14,360	(410)	-	-	-	-	-	12	-	-	-	28	14,360	(398)
Disposals	(68,110)	(8,174)	(4,588)	-	-	-	-	-	-	-	-	-	(68,110)	(8,174)	(4,588)
	132,940	178,813	135,360	70,451	70,451	66,392	34,910	34,771	29,809	2,813	2,813	2,813	241,114	286,848	234,374
Accumulated amortization															
Opening balance	130,735	103,035	84,520	44,457	39,655	35,089	-	-	-	-	-	-	175,192	142,690	119,609
Amortization - expense	21,034	20,899	19,128	4,972	4,802	4,566	-	-	-	-	-	-	26,006	25,701	23,694
Amortization - investment	382	608	4,141	-	-	-	-	-	-	-	-	-	382	608	4,141
Transfers	32	14,360	(398)	-	-	-	-	-	-	-	-	-	32	14,360	(398)
Disposals	(68,110)	(8,167)	(4,356)	-	-	-	-	-	-	-	-	-	(68,110)	(8,167)	(4,356)
	84,073	130,735	103,035	49,429	44,457	39,655	-	-	-	-	-	-	133,502	175,192	142,690
	¢ 48,867	48,078	32,325	21,022	25,994	26,737	34,910	34,771	29,809	2,813	2,813	2,813	107,612	111,656	91,684

(1) Licenses, systems and applications

As of December 31, 2020, this balance mainly includes the Administrative Financial Modernization Program (PMAF, from its name in Spanish), which as of that date has the main operating modules of the ERP integrated solution, which represent 85.5% of the modules acquired for the full solution (2019: 78%), with a carrying amount of ¢27,392. This software is amortized over a 10-year term, ending in 2029 (remaining useful life is 8 years). Other licenses and applications are amortized over a 3-year term.

(2) Submarine cable rights

The terms of the submarine cable IRU establish average terms of 15 years, which may be extended for the lower of a similar term or the useful life of the cable.

(3) Rights of way and easements

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

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

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

(In millions of colones)

Note 10. Equity investments

Equity investments are as follows:

		As of December 31,	
		2020	2019
Joint venture measured using the equity method:			
Tecomunica, S.A. - Nicaragua; 500 ordinary shares with a par value of C$101,000; 50% ownership interest (1)	¢	1,049	1,014
Other investments:		54	54
Equity investments measured at FVOCI:			
Red Centroamericana de Telecomunicaciones S.A.; 280 ordinary shares with a par value of US$1,000; 10.36% ownership interest (2)		-	153
Empresa Propietaria de la Red, S.A.; 6,061 shares with a par value of US$1,000; 10.36% ownership interest (3)		6,202	5,749
		6,202	5,902
	¢	7,305	6,970

(1) Tecomunica, S.A. – Nicaragua

ICE and Empresa Nacional de Transmisión Eléctrica (ENATREL) agreed to organize a company (joint venture), domiciled in Managua, Nicaragua named Tecomunica, S.A., with the purpose of selling and marketing telecommunication services.

(In millions of colones)

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

		As of December 31, 2020	As of December 31, 2019
Percentage ownership interest		50%	50%
Non-current assets	¢	1,861	1,308
Current assets (including cash and cash equivalents – 2020 and 2019: ¢105 and ¢208, respectively)		936	1,343
Non-current liabilities		(70)	(48)
Current liabilities		(629)	(575)
Net assets (100%)		2,098	2,028
ICE Group's share of net assets (50%)		1,049	1,014
Carrying amount of interest in joint venture	¢	1,049	1,014

		As of December 31, 2020	As of December 31, 2019
Current liabilities (excluding trade and other payables – 2020 and 2019: ¢571 and ¢531, respectively)	¢	58	44

		For the year ended 2020	For the year ended 2019
Revenue	¢	1,662	1,530
Depreciation expense		(204)	(214)
Interest income		1	1
Interest expense		(1)	(1)
Income tax expense		(29)	(40)
Profit or loss and total comprehensive income (100%)		71	(272)
Profit or loss and total comprehensive income (50%)		35	(136)
Grupo ICE's share of total comprehensive income	¢	35	(136)

(2) Red Centroamericana de Telecomunicaciones, S.A.

In 2013, Grupo ICE acquired ownership interest in Red Centroamericana de Telecomunicaciones, S.A. (REDCA), which is dedicated to developing, financing, constructing, operating, maintaining and commercially exploiting telecom services or services related to IT and communications. REDCA's share capital is composed of 2,700 shares with a par value of US$1,000. Grupo ICE owns 300 shares (11.11% ownership interest) of which 93.24% correspond to ICE (equivalent to 280 shares) and 6.76% to CNFL.

As of December 31, 2020, due to the measurement of this investment at fair value, ICE recognized impairment losses for the total amount of this investment.

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

Grupo ICE holds ownership interest in Empresa Propietaria de la Red, S.A. (EPR), which was selected to execute the Sistema de Interconexión Eléctrica de los Países de América Central (SIEPAC, Central American Electric Interconnection System) Project. This investment is made by Grupo ICE along with the entities responsible for the management of electricity in the six Central American countries, and three additional entities located in Spain, Colombia, and Mexico. Each of the nine countries holds 11.11% ownership interest in EPR and shall not hold more than 15%.

EPR's share capital is composed of 58,500 ordinary shares with a par value of US$1,000. ICE owns 6,061 shares and CNFL owns 439 shares, for a total of 6,500 shares, amounting to US$6.5, equivalent to ¢3,465, (11.11% ownership interest of Grupo ICE) valued at cost of purchase.

As of December 31, 2020, due to the measurement of this investment at fair value, gains were recognized in other comprehensive income for ¢453 (2019: ¢513).

(In millions of colones)

Note 11. Notes and other accounts receivable, net

Notes and other accounts receivable are as follows:

		As of December 31,					
		2020			2019		
		Non-current	Current	Total	Non-current	Current	Total
Notes receivable							
Loan to Empresa Propietaria de la Red, S.A. (1)	¢	1,872	150	2,022	1,883	140	2,023
Loans receivable from employees (2)		182,597	3,215	185,812	190,078	1,855	191,933
Payment arrangements		215	3,569	3,784	275	2,917	3,192
Allowance for loan losses - Notes receivable (3)		-	(3,874)	(3,874)	-	(3,727)	(3,727)
		184,684	3,060	187,744	192,236	1,185	193,421
Non-trade receivables							
Customers in general		-	15,813	15,813	-	10,755	10,755
Government		-	6,975	6,975	-	9,266	9,266
Other accounts receivable		-	57	57	-	1,398	1,398
Allowance for impairment - non-trade receivables (4)			(1,423)	(1,423)	-	(2,103)	(2,103)
		-	21,422	21,422	-	19,316	19,316
Interest receivable		-	5,129	5,129	-	6,164	6,164
Tax credits and/or withholdings		-	20,538	20,538	-	14,689	14,689
Advances granted to suppliers							
Customers in general		-	3,188	3,188	-	1,459	1,459
Government		-	2,117	2,117	-	2,790	2,790
Employees		-	9	9	-	256	256
		-	5,314	5,314	-	4,505	4,505
	¢	184,684	55,464	240,148	192,236	45,859	238,095

(In millions of colones)

(1) Loan to Empresa Propietaria de la Red, S.A. (EPR)

Corresponds mainly to a loan agreement subscribed by ICE and EPR to repay IDB loan No. 1908, which as of December 31, 2020 has a balance of ¢2,022. Of this amount, the current and non-current portion amounts to ¢150 and ¢1,872 (December 31, 2019: current and non-current portion amounting to ¢140 and ¢2,023, respectively). The total term of the loan is 25 years starting November 24, 2010, with a five-year grace period, payable half-yearly, bearing an annual variable interest rate equivalent to 3-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.52% (2019: 6-month LIBOR + 0.25% funding margin + 0.80% IDB's lending spread, for a total of 3.47%), and unsecured.

(2) Loans due from employees

Loans due from employees are loans granted through ICE's Employee Guarantee and Savings Fund (the Fund). This fund was created by Law No. 3262 of December 16, 1965. Mortgage loans, personal loans and secured loans are granted to employees for housing, purchase of vehicles and other.

As of December 31, the portfolio of loans to employees, current and in legal collection, by type of guarantee, is as follows:

		2020		
		Loans to employees	Loans in legal collection	Total
Mortgage	¢	109,896	1,302	111,198
Fiduciary		71,836	595	72,431
Chattel mortgage		2,183	-	2,183
	¢	183,915	1,897	185,812

		2019		
		Loans to employees	Loans in legal collection	Total
Mortgage	¢	110,389	1,326	111,715
Fiduciary		77,297	864	78,161
Chattel mortgage		2,057	-	2,057
	¢	189,743	2,190	191,933

Collateral guarantees: The Fund accepts collateral guarantees (usually mortgages) to secure its loans. The value of collateral is determined by an appraisal performed by an independent appraiser who determines the estimated fair value of land and buildings based on comparable market offerings and prior appraisals made by the appraiser.

Chattel mortgage guarantees: The Fund also accepts chattel mortgage to secure loans on new vehicles. These are established based on the amount included in the pro forma invoice; 80% of the vehicle's value is financed.

The Fund also accepts fiduciary guarantees.

(Continued)

(In millions of colones)

As of December 31, the term matching of the portfolio of loans to employees is as follows:

		2020					
Maturity in years:		0-1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Total
Personal portfolio (fiduciary guarantee)							
Balance	¢	2,777	1,047	3,817	4,553	60,235	72,429
Number of operations		3,809	3,210	4,022	4,855	28,643	44,539
Average annual interest rate		13%	13%	13%	14%	15%	
Mortgage portfolio							
Balance	¢	427	273	356	694	109,448	111,198
Number of operations		134	149	142	195	5,359	5,979
Average annual interest rate		10%	10%	9%	9%	9%	
Chattel mortgage portfolio							
Balance	¢	10	11	8	33	2,123	2,185
Number of operations		5	2	2	3	318	330
Average annual interest rate		9%	9%	9%	9%	9%	
Total portfolio by maturity	¢	3,214	1,331	4,181	5,280	171,806	185,812
Total number of operations		3,948	3,361	4,166	5,053	34,320	50,848

(In millions of colones)

		2019					
Maturity in years:		0-1 year	1-2 years	2-3 years	3-4 years	More than 4 years	Total
Personal portfolio (fiduciary guarantee)							
Balance	¢	1,297	2,902	4,380	5,850	63,732	78,161
Number of operations		4,023	4,397	5,104	5,737	33,744	53,005
Average annual interest rate		13%	13%	13%	14%	15%	
Mortgage portfolio							
Balance	¢	530	212	444	69	110,459	111,714
Number of operations		85	125	174	182	5,609	6,175
Average annual interest rate		9%	10%	10%	9%	9%	
Chattel mortgage portfolio							
Balance	¢	28	15	22	0	1,993	2,058
Number of operations		1	2	3	0	293	299
Average annual interest rate		9%	9%	10%	0%	9%	
Total portfolio by maturity	¢	1,855	3,129	4,846	5,919	176,184	191,933
Total number of operations		4,109	4,524	5,281	5,919	39,646	59,479

(Continued)

(In millions of colones)

(3) Allowance for impairment of notes receivable

Movement in the allowance for impairment of notes receivable is as follows:

		As of December 31,	
		2020	2019
Opening balance	¢	3,727	3,198
Amounts written off		(290)	(13)
Increase in allowance		437	542
Closing balance	¢	3,874	3,727

(4) Allowance for impairment of non-trade receivables

Movement in the allowance for impairment of non-trade receivables is as follows

		As of December 31,	
		2020	2019
Opening balance	¢	2,103	1,893
Amounts written off		(1,486)	(50)
Increase in allowance		806	260
Closing balance	¢	1,423	2,103

Note 12. Investments in financial instruments

Investments in financial instruments are as follows:

		December 31,		January 1,
		2020	2019	2019
At amortized cost	¢	-	-	60,148
At FVOCI		253,982	284,350	247,482
FVTPL		12,763	12,234	14,653
	¢	266,745	296,584	322,283

Investments in financial instruments in the amount of ¢262,074 (2019: ¢222,712) are destined specifically for the operation of ICE’s Guarantee and Savings Fund.

(Continued)

(In millions of colones)

Investments in financial instruments are as follows:

				December 31, 2020		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
At fair value through other comprehensive income						
Public financial entities						
Bonds	Fixed rate instruments	Colones	¢	7,468	5.84% to 8.42%	2022 to 2024
Bonds	Fixed rate instruments	US dollars		424	13.01%	2022
Bonds	Variable rate instruments	Colones		5,615	4.61% to 8.25%	2022 to 2024
Bonds	Variable rate instruments	US dollars		197	2.50% to 4.75%	2024 to 2025
Public non-financial entities						
Bonds	Fixed rate instruments	US dollars		1,697	5.27% to 13.50%	2022 to 2028
Government						
Bonds	Fixed rate instruments	Colones		118,979	7.91% to 10.25%	2022 to 2031
Bonds	Fixed rate instruments	US dollars		31,018	1.54% to 6.73%	2022 to 2029
Bonds	Fixed rate instruments	DU		13,164	1.46% to 3.70%	2022 to 2026
Bonds	Variable rate instruments	Colones		58,729	3.17% to 5.94%	2022 to 2044
Private financial entities						
Bonds	Fixed rate instruments	Colones		7,718	6.96% to 9.60%	2022 to 2023
Bonds	Fixed rate instruments	US dollars		1,802	12.17%	2023
Bonds	Variable rate instruments	Colones		1,495	4.78% to 5.65%	2022 to 2033
Private non-financial entities						
Bonds	Fixed rate instruments	Colones		719	8.62% to 8.85%	2023
Bonds	Fixed rate instruments	US dollars		3,145	14.07% to 14.65%	2022 to 2027
Bonds	Variable rate instruments	Colones		1,812	4.93%	2023
			¢	253,982		
At fair value through profit or loss						
Public financial entities						
Bonds	Closed fund - dividends	US dollars	¢	5,230	7.09% al 19.26%	
Private financial entities						
Bonds	Closed fund - dividends	US dollars		7,533	7.38% al 11.62%	
			¢	12,763		
			¢	266,745		

(In millions of colones)

				December 31, 2019		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
At fair value through other comprehensive						
Public financial entities						
Bonds	Fixed rate instruments	Colones	¢	4,744	8.42% to 9.44%	2021 to 2023
Bonds	Fixed rate instruments	US dollars		394	-0.46%	2022
Bonds	Variable rate instruments	Colones		11,811	6.75% to 8.33%	2021 to 2023
Public non-financial entities						
Bonds	Fixed rate instruments	US dollars		718	-0.03%	2028
Government						
Bonds	Fixed rate instruments	Colones		99,338	7.16% to 10.75%	2021 to 2030
Bonds	Fixed rate instruments	US dollars		62,853	(0.13%) to 5.52%	2021 to 2029
Bonds	Fixed rate instruments	DU		11,747	3.10% to 5.38%	2022 to 2026
Bonds	Variable rate instruments	Colones		80,485	5.20% to 8.25%	2021 to 2044
Private financial entities						
Bonds	Fixed rate instruments	Colones		3,908	9.08% to 9.60%	2022 to 2023
Bonds	Variable rate instruments	Colones		1,884	6.79% to 7.65%	2021 to 2033
Private non-financial entities						
Bonds	Fixed rate instruments	Colones		691	8.62% to 8.85%	2023
Bonds	Fixed rate instruments	US dollars		3,967	0.47% to 5.85%	2022 to 2028
Bonds	Variable rate instruments	Colones		1,810	6.95%	2023
			¢	284,350		
At fair value through profit or loss						
Public financial entities						
Bonds	Closed fund - dividends	US dollars	¢	4,761	(0.12%) to (3.59%)	
Private financial entities						
Bonds	Closed fund - dividends	US dollars		7,473	(0.82%) a 0.37%	
			¢	12,234		
			¢	296,584		

(Continued)

(In millions of colones)

Issuer	Type of financial instrument	Currency		January 1, 2019 Balance	Interest rate	Maturity
At amortized cost						
Public financial entities						
Bonds	Fixed rate instruments	Colones	¢	18,597	7.00% to 9.50%	2020
Bonds	Fixed rate instruments	US dollars				
Bonds	Variable rate instruments	Colones		5,013	6.75% to 6.80%	2021
Government						
Bonds	Fixed rate instruments	Colones		13,617	6.26% to 10.95%	2020 to 2016
Bonds	Fixed rate instruments	US dollars		8,662	4.83% to 10%	2020
Bonds	Variable rate instruments	Colones		10,003	6.82%	2021
Private financial entities						
Bonds	Fixed rate instruments	Colones		2,515	6.75% to 6.80%	2020
Bonds	Variable rate instruments	Colones		1,000	5.70%	2020
Bonds	Fixed rate instruments	US dollars				
Private non-financial entities						
Bonds	Fixed rate instruments	Colones		741	8.85% to 9.20%	2020 to 2023
Bonds	Variable rate instruments	Colones				
Bonds	Fixed rate instruments	US dollars				
			¢	60,148		
At fair value through other comprehensive						
Public financial entities						
Bonds	Fixed rate instruments	Colones	¢	2,667	7.19% to 9.99%	2020 to 2023
Bonds	Variable rate instruments	Colones		9,540	6.98% to 8.48%	2020 to 2023
Bonds	Fixed rate instruments	US dollars		630	12.42% to 12.60%	2020 to 2022
Public non-financial entities						
Bonds	Fixed rate instruments	US dollars		721	13.09%	2028
Government						
Bonds	Fixed rate instruments	Colones		58,974	6.87% to 10.24%	2020 to 2028
Bonds	Variable rate instruments	Colones		69,974	5.29% to 8.46%	2021 to 2044
Bonds	Fixed rate instruments	US dollars		70,648	4.83% to 14.60%	2020 to 2025
Bonds	Fixed rate instruments	DU		12,299	3.38% to 5.67%	2022 to 2026
Private financial entities						
Bonds	Fixed rate instruments	Colones		4,889	6.84% to 9.60%	2020 to 2023
Bonds	Variable rate instruments	Colones		1,936	6.88% to 7.69%	2021 to 2033
Bonds	Fixed rate instruments	US dollars		4,555	5.00% to 13.68%	2020
Private non-financial entities						
Bonds	Fixed rate instruments	Colones		1,494	8.62% to 8.67%	2020 to 2023
Bonds	Variable rate instruments	Colones		3,161	7.04% to 8.61%	2019 to 2033
Bonds	Fixed rate instruments	US dollars		5,994	5.50% to 15.55%	2019 to 2028
			¢	247,482		
At fair value through profit or loss						
Public financial entities						
Bonds	Closed fund - dividends	US dollars	¢	6,026	6.70% to 15.18%	
Private financial entities						
Bonds	Closed fund - dividends	US dollars		8,627	11.79% to 14.45%	
			¢	14,653		
			¢	322,283		

(In millions of colones)

Note 13. Inventories

Inventories are as follows:

		As of December 31, 2020	As of December 31, 2019
Materials, spare parts and supplies	¢	33,991	28,810
Fuels and lubricants		13,883	17,240
Tools		1,951	1,354
Assets for sale		5,455	9,577
Inventory in transit		922	364
Other		253	328
	¢	56,455	57,673

As of December 31, 2020 and 2019, inventories include decreases in the net realizable value in the amount of ¢32,249 and ¢29,923, respectively. Impairment of inventories recognized as expenses amounted to ¢5,780 (2019: ¢8,922).

During 2020, inventories in the amount of ¢68,762 (2019: ¢118,273) were expensed during the year and included in operating costs and expenses, as applicable, depending on the use or destination of those inventories.

Note 14. Investments in financial instruments

Investments in financial instruments are as follows:

		As of December 31, 2020	As of December 31, 2019	As of January 1, 2019
At amortized cost	¢	85,242	167,510	117,542
At FVOCI		102,968	45,748	35,440
At FVTPL		24,206	9,520	5,253
	¢	212,416	222,778	158,235

Investments in financial instruments measured at amortized cost include a restricted amount of ¢12,248 (2019: ¢3,649), which is earmarked as part of a provision for the quarterly payment of interest and principal on the series closest to maturity of bonds payable, with a carrying amount of ¢44,735 as of December 31, 2020 (2019: ¢41,834) – included in Note 17 (a). Similarly, investments in financial instruments in the amount of ¢50,179 (2019: ¢55,268) are destined for the specific operation of ICE's Guarantee and Savings Fund.

(In millions of colones)

Investments in financial instruments is as follows:

				As of December 31, 2020		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
At amortized cost						
Government						
Central Bank bonds	Variable rate instruments	US dollars	¢	22,062	4.16% - 5.87%	2021
Public financial entities						
Bonds	Fixed rate instruments	US dollars		24,606	2.50% - 3.27%	2021
Bonds	Variable rate instruments	Colones		10,500	1.30% al 8.25%	2021
Bonds	Variable rate instruments	US dollars		6,138	1.35% - 4.75%	2021
Private financial entities						2021
Bonds	Fixed rate instruments	US dollars		11,069	2.85% - 3.80%	2021
Bonds	Variable rate instruments	Colones		4,862	3.15% - 3.25%	2021
Bonds	Variable rate instruments	US dollars		104	0.75% - 2.05%	2021
Private non-financial entities						2021
Bonds	Variable rate instruments	US dollars		5,901	0.00%	2021
				85,242		
At fair value through other comprehensive income						
Government						
Central Bank bonds	Fixed rate instruments	US dollars		52,763	5.52% - 14.35%	2021
Central Bank bonds	Fixed rate instruments	Colones		10,002	2.54%	2021
Monetary stabilization bonds	Fixed rate instruments	Colones		6,150	8.63%	2021
Central Bank bonds	Variable rate instruments	Colones		955	6.82%	2021
Public financial entities						2021
Bonds	Variable rate instruments	Colones		17,052	5.38% - 6.50%	2021
Bonds	Fixed rate instruments	Colones		6,112	2.61% - 9.15%	2021
Bonds	Fixed rate instruments	US dollars		3,105	5.88%	2021
Private financial entities						2021
Bonds	Fixed rate instruments	Colones		5,269	5.25% al 5.32%	2021
Bonds	Variable rate instruments	Colones		950	4.77% - 6.08%	2021
Investment certificates	Fixed rate instruments	US dollars		611	10.38%	2021
				102,968		
At fair value through profit or loss						
Public financial entities						2021
Bonds	Variable rate instruments	Colones		23,423	0.32% - 0.89%	2021
Bonds	Variable rate instruments	US dollars		783	7.18% - 7.93%	2021
				24,206		
			¢	212,416		

(In millions of colones)

Issuer	Type of financial instrument	Currency		As of December 31, 2019 Balance	Interest rate	Maturity
At amortized cost						
Government						
Central Bank bonds	Variable rate instruments	US dollars	¢	40,062	4.60% - 10.00%	2020
Central Bank bonds	Variable rate instruments	Colones		5,936	7.59% - 8.70%	2020
Monetary stabilization bonds	Variable rate instruments	Colones		2,000	6.26%	2020
Public financial entities						
Bonds	Variable rate instruments	Colones		41,256	4.72% - 9.75%	2020
Bonds	Variable rate instruments	US dollars		7,119	1.30% - 4.85%	2020
Private financial entities						
Bonds	Variable rate instruments	US dollars		23,137	1.90% - 5.50%	2020
Investment certificates	Variable rate instruments	US dollars		17,212	3.45% - 5.70%	2020
Bonds	Variable rate instruments	Colones		11,685	5.15% - 7.50%	2020
Investment certificates	Variable rate instruments	Colones		7,501	9.65% - 10.50%	2020
Bonds	Variable rate instruments	US dollars		2,295	3.10%	2020
Private non-financial entities						
Bonds	Variable rate instruments	US dollars		5,737	0.00%	2020
Equity investments	Variable rate instruments	US dollars		3,228	-	2020
Bonds	Variable rate instruments	Colones		342	9.20%	2020
				167,510		
At fair value through other comprehensive income						
Government						
Bonds	Variable rate instruments	Colones		3,326	7.30% - 8.32%	2020
Monetary stabilization bonds	Fixed rate instruments	Colones		14,977	5.24% - 6.87%	2020
Central Bank bonds	Fixed rate instruments	US dollars		1,552	-1.12%	2020
	Fixed rate instruments	Colones		3,375	6.62% - 9.46%	2020
Private financial entities						2020
Bonds	Fixed rate instruments	Colones		7,318	0.00%	2020
Bonds	Variable rate instruments	Colones		1,050	7.67% - 8.04%	2020
Bonds	Fixed rate instruments	Colones		1,384	7.19% - 7.48%	2020
Bonds	Fixed rate instruments	Colones		10,778	6.84% - 9.89%	2020
Private non-financial entities						2020
Bonds	Fixed rate instruments	US dollars		814	0.71%	2020
Bonds	Fixed rate instruments	Colones		1,175	8.67%	2020
				45,748		
At fair value through profit or loss						
Public financial entities						
Bonds	Variable rate instruments	Colones		9,426	1.34% - 1.97%	2020
Bonds	Variable rate instruments	US dollars		94	0%	2020
				9,520		
			¢	222,778		

(In millions of colones)

				As of January 1, 2019		
Issuer	Type of financial instrument	Currency		Balance	Interest rate	Maturity
At amortized cost						
Government						
Bonds	Variable rate instruments	US dollars	¢	38,451	4.02% - 9.99%	2019
Bonds	Variable rate instruments	Colones		27,407	6.21% - 9.20%	2019
Public financial entities						
Bonds	Variable rate instruments	Colones		19,801	4.26% - 8.10%	2019
Bonds	Variable rate instruments	US dollars		10,149	0.90% - 5.25%	2019
Private financial entities						
Bonds	Fixed rate instruments	Colones		2,400	7.00%	2019
Bonds	Variable rate instruments	Colones		9,285	5.75% - 8.10%	2019
Bonds	Variable rate instruments	US dollars		2,252	1.90% - 4.85%	2019
Private non-financial entities						
Bonds	Variable rate instruments	US dollars		6,950	0.00%	2019
Bonds	Variable rate instruments	Colones		847	8.7% - 10%	2019
				117,542		
At fair value through other comprehensive income						
Government						
Bonds	Variable rate instruments	Colones		6,912	7.18%	2019
Bonds	Variable rate instruments	Dolares		1,510	12.32%	2019
Public financial entities						
Bonds	Fixed rate instruments	Colones		3,918	7.00%	2019
Bonds	Variable rate instruments	Colones		5,645	8.94%	2019
Private financial entities						
Bonds	Variable rate instruments	Colones		13,444	7.10% - 8.97%	2019
Bonds	Variable rate instruments	Dolares		4,010	11.42% - 12.62%	2019
				35,440		
At fair value through profit or loss						
Public financial entities						
Bonds	Variable rate instruments	Colones		5,098	1.69% - 2.42%	2019
Bonds	Variable rate instruments	US dollars		155	7.80 - 8.64%	2019
				5,253		
			¢	158,235		

(In millions of colones)

Note 15. Trade receivables, net

Trade receivables, net, are as follows:

		As of December 31,	
		2020	2019
Customers in general	¢	184,205	149,426
Government		36,487	31,857
Private banks		289	196
Other		2,501	(152)
		223,482	181,327
Allowance for impairment of trade receivables		(47,653)	(34,365)
	¢	175,829	146,962

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

		As of December 31,	
		2020	2019
Opening balance	¢	34,365	42,152
Amounts written off		(2,053)	(28,332)
Increase in allowance		15,341	20,545
Closing balance	¢	47,653	34,365

Grupo ICE's exposure to credit risk, market risk and impairment losses on trade receivables are disclosed in Note 31.

Note 16. Cash and cash equivalents

Cash and cash equivalents are as follows:

		As of December 31,	
		2020	2019
Cash on hand and in banks	¢	268,877	155,779
Restricted cash		25,774	16,169
Cash equivalents		17,092	25,418
	¢	311,743	197,366

Restricted cash includes ¢11,612 (2019: ¢2,501) destined for the specific operation of ICE's Guarantee and Savings Fund. In addition, it includes ¢12,005 (2019: ¢11,690) as part of a provision for the quarterly payment of interest on bonds payable with a carrying amount of ¢44,735 as of December 31, 2020 (2019: ¢41,834) – included in Note 17 (a), and a provision for short-term cash payment obligations on the loan with the German bank KfW, which as of December 31, 2020 has a balance of ¢18,197 (2019: ¢28,008) – included in Note 17 (b).

Cash equivalents mainly include demand and term certificates of deposit bearing interest at rates ranging between 1% and 4.30% in US dollars.

(Continued)

(In millions of colones)

Note 17. Financial debt

a. ***Bonds payable***

Bonds payable issued by Grupo ICE are as follows:

					As of December 31,					As of January 1,		
				2020			2019			2019		
	Currency	Annual interest rate	Maturity	Non-current	Current	Total	Non-current	Total	Total	Non-current	Current	Total
Internal debt:												
Bonds issue	¢	Variable rate from 5.20% to 7.33% (2019: variable from 7.45% to 9.98%) and fixed rate of 6.43% (2019: fixed rate of 11.41%)	2021-2033	¢ 148,155	44,811	192,966	190,431	17,960	208,391	208,962	-	208,962
Bonds issue	US$	Variable rate from 10.30% to 10.71% in 2020 and 2019, and fixed between 7.18% and 7.65% (2019: fixed between 5.97% and 7.65%)	2021-2027	267,923	38,126	306,049	286,229	38,338	324,567	348,766	41,306	390,072
External debt:												
Bonds issue	US$	Fixed between 6.38% and 6.95% in 2020 and 2019	2021-2043	303,932	297,933	601,865	569,308	-	569,308	607,818	-	607,818
				¢ 720,010	380,870	1,100,880	1,045,968	56,298	1,102,266	1,165,546	41,306	1,206,852

Bonds payable are secured by a government guarantee.

Note 31 includes information on the Group’s exposure to interest rate, foreign currency and liquidity risks.

(In millions of colones)

b. ***Loans payable***

Loans payable, by type of currency and maturity, are as follows:

		As of December 31, 2020	As of December 31, 2019	As of January 1, 2019
Internal debt:				
Colones	¢	588,005	463,456	169,297
US dollars		46,391	44,199	358,322
External debt:				
Colones		93,478	99,189	105,034
US dollars		710,885	844,647	850,524
Yen		128,452	112,650	112,177
	¢	1,567,211	1,564,141	1,595,354
Non-current	¢	1,435,803	1,445,132	1,471,366
Current		131,408	119,009	123,988
	¢	1,567,211	1,564,141	1,595,354

Loans payable in US dollars and in yen amount to US$1,230 and ¥21.502, respectively (2019: US$1,550 and ¥21,311, respectively).

Loans payable by creditor are as follows:

		As of December 31, 2020	As of December 31, 2019	As of January 1, 2019
Internal debt:				
State-owned banks	¢	631,229	503,854	523,086
Private banks		3,167	3,801	4,533
External debt:				
Private banks		931,282	1,053,482	1,061,765
Other creditors		1,533	3,004	5,970
	¢	1,567,211	1,564,141	1,595,354

Note 31 includes information about Grupo ICE's exposure to interest rate, currency and liquidity risks.

(In millions of colones)

The characteristics of loans payable are as follows:

	Interest rate	Currency	Term
Internal debt	Variable between 6.05% and 10.23% (2019: variable between 8.15% and 9.70%)	¢	Maturing between December 3, 2021 and October 21, 2045
Internal debt	Variable between 6.00% and 6.51% (2019: variable between 7.15% and 7.80%)	US$	Maturing between June 30, 2033 and September 13, 2043
External debt	Variable between 7.50% and 7.70% in 2020 and 2019 and fixed between 7.51% and 7.91% in 2020	¢	Maturing between October 14, 2022 and October 15, 2037
External debt	Variable between 1.61% and 7.72% (2019: variable between 2.93% and 6.92%) and fixed between 0.70% and 6.40% in 2020 and 2019	US$	Maturing between June 7, 2021 and March 15, 2044
External debt	Fixed between 0.60% and 2.20% in 2020 and 2019	JPY	Maturing between April 20, 2026 and June 20, 2057

Loans payable for a total of ¢1,567,211 (2019: ¢1,564,141) include loans secured by promissory notes subscribed by ICE (unsecured with collateral) in the amount of ¢748,021 (2019: ¢756,495) and loans endorsed by the Government in the amount of ¢303,771 (2019: ¢283,524).

In addition, bank loans in the amount of ¢515,419 (2019: ¢524,122) are secured by land, buildings, machinery and equipment with a carrying amount of ¢966,519 (2019: ¢984,519) (see Note 8).

Generally, loan agreements establish a number of commitments regarding environmental, legal, financial, operational, and business matters, among others, which the debtor must comply with. Those commitments are typically known as "covenants." In the case of Grupo ICE, several of the agreements subscribed to date include "positive covenants" and "negative covenants", which establish commitments that Grupo ICE must meet, and restrictions or limitations on certain actions, usually requiring prior approval from the creditor. Financial covenants are usually related to financial ratios based on EBITDA (in some cases including lease payments), such as EBITDA coverage ratio, net debt to total assets, etc.

Some of the loan agreements include the following clauses:

a) *Cross Default:* these clauses establish that upon execution of a loan agreement, Grupo ICE expressly and irrevocably accepts that noncompliance with payment obligations, with other terms and conditions of the loan agreement, or with loan agreements subscribed by Grupo ICE and other creditors will result in early termination of the corresponding loan and all other loan agreements in effect with the same creditor.

b) *Pari Passu:* according to this clause, Grupo ICE recognizes that the obligations and guarantees under the corresponding agreements will have equal claim on payment rights (pari passu) with respect to other present or future obligations derived from Grupo ICE's debt (except for debt commitments given preference by law).

As of December 31, 2020, the following requests were processed and approved for loan agreements on which financial covenants were not met:

(i) Conditions of loan agreements with Corporación Andina de Fomento (CAF)

On December 9, 2020, ICE requested CAF to waive the potential noncompliance with the indicator established in clause 6.01 subsection (l), specifically in relation to the total liabilities to equity ratio of Chapter VI Special Obligations of the agreement currently in effect between the entities. In note No. VIN-2020/085 dated December 29, 2020, CAF approved the waiver of noncompliance with clause 6.01 subsection "I" and indicated that the conditions to demand payment of the liability will be reviewed at the end of 2021. As of December 31, 2020, the balance of this loan is ¢12,769 (US$20.7).

As of December 31, 2019, there was no noncompliance. As of January 1, 2019, due to noncompliance with certain financial covenants related to loans as of that date, ICE processed the corresponding waiver requests. However, the waivers issued by creditors did not meet the following conditions: reception before December 31, 2018 and coverage of a minimum of 12 months.

A summary of this noncompliance with covenants is provided below:

(i) Conditions of loan agreements with Central American Bank for Economic Integration (CABEI) (balance of ¢263,811 with a long-term portion of ¢241,732)

Loans payable (external debt in US dollars) as of December 31, 2018, include ¢246,318 in loan operations with CABEI. A waiver was requested through note No. 0078-0580-2018 dated November 30, 2018, for the ratios "debt + finance leases / EBITDA + finance lease payments" and "consolidated EBITDA / consolidated interest expense". In communication GERCR-071/2019 dated February 11, 2019, CABEI waived noncompliance with these indicators for the reporting periods December 31, 2018, June 30, 2019 and December 31, 2019.

(ii) Conditions of loan agreements with Banistmo (balance of ¢10,714, with a long-term portion of ¢5,356)

On November 22, 2018, ICE requested from Grupo Bancolombia/Banco Banistmo a waiver of the financial indicators of clause 7.2 "Financial Obligations" of the loan agreement. The request was approved and communicated through a note dated December 12, 2018, which modified the limit of the "maximum financed debt / EBITDA ratio" from 6.0 times to 7.0 times until March 30, 2019.

(Continued)

(iii) *Conditions of loan agreements with the International Development Bank (IDB 1931) and The Bank of New York Mellon (balance of ¢36,453, with a long-term portion of ¢27,762)*

On November 9, 2018, through note No. 5401-0339-2018, a waiver was requested for noncompliance with the following indicators: "net consolidated debt according to IFRS / EBITDA adjusted according to IFRS," so as to modify the limit from 5.30 times to 5.70 times for 2018; "net consolidated debt according to GAAP / EBITDA adjusted according to GAAP" to modify the limit of the indicator from 5.30 times to 6.10 times for 2018 and to 5.45 times for 2019; and "adjusted net consolidated debt / adjusted consolidated EBITDA" to modify the limit of the indicator from 5.50 times to 5.70 times for 2018. In addition, by means of a note dated January 30, 2019, Grupo ICE indicated that the waiver is only required for 2018, since according to the updated financial projections as of December, noncompliance would occur only for that year and not for 2019, as previously indicated. In a communication dated February 21, 2019, the banks granted a waiver for the indicator "net consolidated debt according to IFRS / EBITDA adjusted according to IFRS" and authorized the requested change in the limit for 2018 (from 5.30 times to 5.70 times).

(iv) *Conditions of loan agreements with Scotiabank (balance of ¢24,830 with a long-term portion of ¢18,645)*

Through note No. 0078-0548-2018 dated November 14, 2018, a waiver was requested for the indicators "consolidated debt / consolidated EBITDA" to modify the limit from < 6 times to < 7.30 times for 2018 and 2019, and "net value" to modify the limit from > US$3,300 to > US$2,900 for 2019 to 2021. In communication No. GERCR-071/2019 dated February 11, 2019, the bank granted the waiver on noncompliance with the aforementioned indicators with official communication dated December 24, 2018, only for 2018.

(v) *Conditions of loan agreements with CAF (balance of ¢22,685, with a long-term portion of ¢17,603)*

By means of note No. 0078-0567-2018 dated November 26, 2018, a waiver was requested for the indicators "total liabilities / equity" to change the limit from < 1.2 times to < 1.50 times for 2018-2023, and "debt / EBITDA" to change the limit from < 7 times to < 7.5 times for 2018. In note VIN-142 dated December 21, 2018, the bank granted the waiver on noncompliance with those indicators only for 2018 and until June 30, 2019.

(vi) *Conditions of loan agreements with Kreditanstalt für Wiederaufbau (KFW) (balance of ¢467,653, with a long-term portion of ¢449,631)*

By means of note No. 0078-0563-2018 dated November 22, 2018, a waiver was requested for the indicators "net consolidated debt according to IFRS / EBITDA" to change the limit to < 5.65 times for 2018; "net consolidated debt according to GAAP / EBITDA" to change the limit to < 6.04 times for 2018; "adjusted net consolidated debt / EBITDA" to change the limit of the indicator to < 5.65 times for 2018. The waiver was granted by means of the same note, which included the authorization signature by the bank.

(In millions of colones)

c. ***Lease liabilities***

The balances of lease liabilities are as follows:

				As of December 31,						As of January 1,		
				2020			2019			2019		
	Currency	Interest rate	Maturity	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Lease liabilities	Colones	From 14.53% to 15.57%	2021-2023	317	116	434	717	207	924	925	555	1,480
Lease liabilities	US dollars	From 4.90% to 23.14%	2021-2033	375,074	38,837	413,910	385,313	32,069	417,382	460,879	48,365	509,244
				375,391	38,953	414,344	386,030	32,276	418,306	461,804	48,920	510,724

Note 31 includes information on Grupo ICE's exposure to interest rate, foreign currency and liquidity risks.

(In millions of colones)

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

		Bonds payable	Loans payable	Lease liabilities	Total
Balance as of December 31, 2019	¢	1,102,266	1,564,141	418,306	3,084,713
Changes due to cash flows from financing activities					
New loans		7,457	63,146	284	70,887
Amortization		(76,602)	(137,082)	(33,145)	(246,829)
Total changes due to cash flows from financing activities		(69,145)	(73,936)	(32,861)	(175,942)
Effect of exchange rate fluctuations		67,759	76,705	29,200	173,664
Reclassification of leases – right-of-use assets		-	301	(301)	-
Balance as of December 31, 2020	¢	1,100,880	1,567,211	414,344	3,082,435
Other changes					
Cost of capitalized loans (Note 8)	¢	12	2,110	-	2,122
Interest expense (Note 28)		85,781	59,316	98,391	253,897
Interest paid		(86,341)	(65,193)	(98,110)	(260,053)
Total other changes related to liabilities	¢	(548)	(3,767)	281	(4,034)

(Continued)

(In millions of colones)

		Bonds payable	Loans payable	Lease liabilities	Total
Balance as of January 1,2019	¢	1,206,852	1,595,354	510,724	3,312,930
Changes due to cash flows from financing activities					
New loans		-	220,666	-	220,666
Amortization		(46,737)	(188,865)	(64,820)	(300,422)
Total changes due to cash flows from financing activities		(46,737)	31,801	(64,820)	(79,756)
Effect of exchange rate fluctuations		(57,849)	(62,923)	(28,309)	(149,081)
Lease due to assignment of rights and obligations of subsidiaries		-	(91)	65	(26)
Reclassification of leases – right-of-use assets		-	-	646	646
Balance as of December 31, 2019	¢	1,102,266	1,564,141	418,306	3,084,713
Other changes					
Cost of capitalized loans (Note 8)	¢	5,160	2,919	-	8,079
Interest expense (Note 28)		75,839	64,583	104,322	244,744
Interest paid		(80,681)	(71,760)	(104,373)	(256,814)
Total other changes related to liabilities	¢	318	(4,258)	(51)	(3,991)

(Continued)

Note 18. Leases

Grupo ICE leases power plants, commercial spaces, tower spaces and telecom equipment. Power plant leases include the payment of fixed installments with no variation until the end of the contract and payments based on the use of the underlying asset (variable payments due to purchase of energy- Build-Own-Operate (BOO)). In conformity with IFRS 16, Grupo ICE did not recognize the BOO contracts with variable payments in the measurement of lease liabilities and right-of-use assets. Power plant leases have terms of 12 to 19 years. Leases bear interest at rates ranging from 4.90% to 23.14%. Grupo ICE is exposed to variations in lease payments that are based on the use of the underlying asset, which vary according to the water or wind available to generate energy.

Leases on commercial spaces have terms of 3 years and payments are adjusted every 12 months, in conformity with the final lease agreement. Leases of tower spaces have terms of 5 to 10 years and lease payments are adjusted every 12 months. Physical spaces for telecom and office equipment, printing equipment and electric cars have terms of 3 to 5 years. IT equipment, machinery, telecom infrastructure and property for transmission equipment have fixed payments and terms of 1 to 5 years. Grupo ICE also leases warehouses, computer equipment, machinery and construction equipment. These leases are short term and/or leases of low-value assets. Grupo ICE has elected not to recognize right-of-use assets or lease liabilities related to these leases.

(In millions of colones)

1. Right-of-use assets

Right-of-use assets are as follows:

		As of January 1, 2019	Additions and capitalizations	Depreciation	Disposals	Adjustments and transfers	As of December 31, 2019	Additions and capitalizations	Depreciation	Adjustments and transfers	As of December 31, 2020
Right-of-use assets											
Land	¢	1,598	-	-	-	(1,598)	-	-	-	-	-
Buildings and facilities		5,418	697	(1,888)	-	(3)	4,224	335	(1,853)	-	2,706
Hydroelectric power generation		239,131	-	(5,807)	-	3	233,327	-	(4,370)	(62,194)	166,763
Geothermal power generation		53,389	-	(3,083)	-	-	50,306	-	(3,061)	-	47,245
Wind power generation		106,813	-	(10,461)	-	-	96,352	-	(10,095)	-	86,257
Substations		27,832	-	(1,537)	-	(16,544)	9,751	-	(1,422)	-	8,329
Transmission lines		19,205	-	(558)	-	(16,509)	2,138	-	(566)	-	1,572
Furniture and equipment		139	-	-	(139)	-	-	-	-	-	-
Transport equipment		18	-	-	-	(18)	-	-	-	-	-
Tower sites and land		19,272	-	(3,396)	-	-	15,876	-	(3,394)	-	12,482
	¢	472,815	697	(26,730)	(139)	(34,669)	411,974	335	(24,761)	(62,194)	325,354

(Continued)

(In millions of colones)

2. *Amounts recognized in profit or loss*

		As of December 31, 2020	2019
Interest on lease liabilities (Note 28)	¢	98,391	104,322
Short-term leases and leases of low-value assets (Note 26)		10,765	4,611
Variable lease payments based on the use of the underlying asset (Note 26)		50,890	61,716
Total amount recognized in profit or loss	¢	160,046	170,649

3. *Amounts recognized in the statement of cash flows*

	As of December 31, 2020	2019
Total cash outflows for leases	131,536	169,142

4. *Extension options*

For minor leases (mainly commercial spaces), although there are extension options (renewal), the probability of executing those options is conditioned by contractual, commercial and financial matters that Grupo ICE assesses prior to renewal.

Where applicable, terms are set up for 36 months, automatically renewable for equal terms upon maturity, unless the lessor or lessee gives a notice three months prior to maturity that it wishes to terminate the lease. This means that extensions are optional, and there is uncertainty as to whether they will be exercised and as to the term of the extension.

For major lease agreements (such as power plants), there is reasonable certainty that the purchase option will be exercised, and for some leases the transfer of the asset at the end of the agreement is contractually established. Consequently, for major leases, depreciation is calculated based on the useful lives set by Grupo ICE.

(In millions of colones)

Note 19. Employee benefits

Employee benefits are as follows:

		As of December 31,					
		2020			2019		
		Non-current	Current	Total	Non-current	Current	Total
Severance benefits (a)	¢	73,164	13,130	86,294	72,037	8,023	80,060
ICE Guarantee and Savings Fund (b):							
Employer contribution		363,493	39,219	402,712	341,011	37,609	378,620
ICE Employer obligations (c):							
Vacations		-	22,575	22,575	-	24,682	24,682
Back-to-school bonus		-	20,626	20,626	-	21,608	21,608
Statutory Christmas bonus		-	1,717	1,717	-	1,847	1,847
Third and fifth biweekly salary		-	606	606	-	281	281
Occupational hazard insurance		-	213	213	-	69	69
	¢	436,657	98,086	534,743	413,048	94,119	507,167

Defined benefit plans

As of December 31, 2020, of the total obligation for severance benefits, ¢81,593 correspond to permanent employees (2019: ¢75,340), ¢3,080 to project employees (2019: ¢2,825) and ¢1,621 to downsizing (2019: ¢1,895), for a total of ¢86,294 (2019: ¢80,060). Of these amounts, the current and non-current portion is equivalent to ¢13,130 and ¢73,164 (2019: ¢8,023 and ¢72,037).

a. ICE severance benefits

Starting December 2018, the *Law to Strengthen Public Finances* (Law No. 9635) entered into effect. Transition provision XXVII, Chapter I, Section V of this law set forth that for employees with a right to severance benefits acquired through legal instruments other than collective agreements, once the law entered into effect on December 4, 2018, those with at least 12 years of service would have the right to receive up to a maximum of 12 years of severance benefits. All other employees would have the right to receive up to a maximum of eight years of severance benefits.

Previously, Grupo ICE followed the "*Personnel Statute*", which established in Chapter XXXVII the rules in effect for the payment of severance benefits for termination of the employment contract (with employer liability), according to the years of service and as established in said regulations.

(Continued)

Until December 31, 2017, the sum of years recognized before and after the *Employee Protection Law* became effective could not exceed 24 years of severance benefits, corresponding to a period of 40 years of continuous service at ICE. Starting in 2018, the cap was modified when the aforementioned Law No. 9365 became effective.

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

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

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

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

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

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

(In millions of colones)

The new measurements of the net defined benefit obligation (employee benefits), which includes actuarial gains and losses, returns on plan assets, if any (excluding interest), and the effect of the asset ceiling, if any (excluding interest), are recognized immediately in other comprehensive income. ICE determines the interest expense of the net employee benefit liability for the period by applying the discount rate used to measure the employee benefit liability at the beginning of the year to the net employee benefit liability, considering any change in the employee benefit liability during the period as a result of contributions made and payment of benefits. The interest expense and other expenses related to employee benefit plans are recognized in profit or loss.

When there is a modification or decrease in plan benefits, the resulting modification related to past service or the gain or loss due to the decrease is immediately recognized in profit or loss. ICE recognizes gains or losses on the payment of employee benefits when it occurs.

The amount estimated for the payment of severance to employees within one year or less is booked as a current provision for employee benefits (severance), according to the results of the actuarial studies of such benefit.

The calculation of the severance benefit obligations for ICE and its subsidiaries CNFL and RACSA are as follows:

Instituto Costarricense de Electricidad (ICE)

Movement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit obligation (severance) and its components, as defined by an actuarial study, is as follows:

		As of December 31,	
		2020	2019
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	70,623	42,354
Expense recognized in the statement of profit or loss:			
Current service cost		3,274	150
Net interest on the defined benefit obligation		6,125	5,909
Loss on severance benefits		-	67
		9,399	6,126
Actuarial loss recognized in other comprehensive income (OCI) - (i)		6,318	28,505
Severance benefits paid		-	(106)
Severance benefits paid by ICE		(7,813)	(6,256)
Balance as of December 31	¢	78,527	70,623

(Continued)

(In millions of colones)

ICE's obligation for severance benefits is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method."

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

		For the year ended December 31,	
		2020	2019
Gain on demographic assumptions	¢	(122)	(44)
(Gain) loss on financial assumptions		(3,140)	25,428
Loss on experience adjustments		9,580	3,121
	¢	6,318	28,505

(ii) *Actuarial assumptions*

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

	As of December 31,	
	2020	2019
Nominal discount rate	10.41%	9.18%
Expected salary increase rate	3.78%	3.11%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0.5% variation (positive or negative) in the obligation amount. The intermediate value is what ICE's management selected to perform the calculations.

(In millions of colones)

			As of December 31, 2020		
			Discount rate variation		
			9.91%	10.41%	10.91%
	3.30%	¢	80,493	77,482	**74,819**
Variation in salary increase rate	3.80%	¢	81,569	**78,527**	75,945
	4.30%	¢	**82,855**	79,888	77,096

The minimum amount of the obligation (¢74,819) occurs if the salary increase rate is the lowest in the sensitivity range (3.30%), and the discount rate is the highest (10.91%). The maximum amount of the obligation (¢82,855) occurs in the opposite case. The calculated amount (¢78,527) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2019		
			Discount rate variation		
			8.68%	9.18%	9.68%
	2.60%	¢	70,297	67,752	**65,380**
Variation in salary increase rate	3.10%	¢	73,364	**70,623**	68,072
	3.60%	¢	**76,650**	73,696	70,950

The minimum amount of the obligation (¢65,380) occurs if the salary increase rate is the lowest in the sensitivity range (2.60%), and the discount rate is the highest (9.68%). The maximum amount of the obligation (¢76,650) occurs in the opposite case. The calculated amount (¢70,623) falls in the mid-range of this sensitivity analysis.

As of December 31, 2020, the average retirement period is 16.3 years, and the average employee seniority was 18 years, with an average age of 45.38 years (2019: average retirement period of 16.7 years, average employee seniority 17.5 years, with an average age of 44.8 years).

(Continued)

(In millions of colones)

CNFL

Movement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit liability (severance benefits) and its components, as defined by an actuarial study, is as follows:

		As of December 31,	
		2020	2019
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	4,193	5,258
Expense recognized in the statement of profit or loss:			
Current service cost		463	83
Prior-services cost		-	(6,685)
Net interest on the defined benefit obligation		340	628
Loss on severance benefits		-	752
		803	(5,222)
Actuarial loss recognized in other comprehensive income (OCI) - (i)		(1,179)	6,256
Severance benefits paid		-	(1,486)
Severance benefits paid by CNFL		(968)	(613)
Balance as of December 31	¢	2,849	4,193

CNFL's obligation for severance benefits is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method".

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

		For the year ended December 31,	
		2020	2019
Gain on demographic assumptions	¢	(33)	(37)
Loss on financial assumptions		140	2,711
(Gain) loss on experience adjustments		(1,286)	3,582
	¢	(1,179)	6,256

(In millions of colones)

(ii) *Actuarial assumptions*

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

	As of December 31,	
	2020	2019
Nominal discount rate	10.33%	10.03%
Expected salary increase rate	5.70%	4.33%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0.5% variation (positive or negative) in the obligation amount. The midrange value was chosen by the CNFL's management to perform the calculations.

			As of December 31, 2020		
			Discount rate variation		
			9.80%	10.30%	10.80%
	5.20%	¢	2,953	2,686	**2,451**
Variation in salary increase rate	5.70%	¢	2,850	**2,849**	2,595
	6.20%	¢	**3,336**	3,025	2,751

(In millions of colones)

The minimum amount of the obligation (¢2,451) occurs if the salary increase rate is the lowest in the sensitivity range (5.20%) and the discount rate is the highest (10.80%). The maximum amount (¢3,336) occurs in the opposite case. The calculated amount (¢2,849) falls in the mid-range of this sensitivity analysis.

			As of December 31, 2019		
			Discount rate variation		
			9.53%	10.03%	10.53%
	3.80%	¢	3,621	3,301	**3,024**
Variation in salary increase rate	4.30%	¢	4,035	**4,193**	3,344
	4.80%	¢	**4,501**	4,084	3,713

The minimum amount of the obligation (¢3,024) occurs if the salary increase rate is the lowest in the sensitivity range (3.80%) and the discount rate is the highest (10.53%). The maximum amount (¢4,501) occurs in the opposite case. The calculated amount (¢4,193) falls in the mid-range of this sensitivity analysis.

As of December 31, 2020, the average retirement period is 17.6 years, and the average employee seniority was 17.6 years, with an average age of 44 years (2019: average retirement period of 18.2 years, average employee seniority 17.1 years, with an average age of 43.4 years).

RACSA

Movement in the defined benefit obligation (severance)

The reconciliation of the opening and closing balances of the defined benefit liability (severance benefits) and its components, as defined by an actuarial study, is as follows:

		As of December 31,	
		2020	2019
Reconciliation of the defined benefit obligation			
Balance as of January 1	¢	524	342
Expense recognized in the statement of profit or loss:			
Current service cost		175	116
Net interest on the defined benefit obligation		38	36
		213	152
Actuarial loss recognized in other comprehensive income (OCI) - (i)		(373)	94
Severance benefits paid by RACSA		(147)	(64)
Balance as of December 31	¢	217	524

(In millions of colones)

RACSA's obligation for severance benefits is calculated annually using the projected unit credit method, also known as the "accumulated benefits in proportion to the services rendered method" or the "benefits for years of service method".

(i) Actuarial gains are as follows:

		For the year ended December 31,	
		2020	2019
Loss on demographic assumptions	¢	44	(164)
Loss on financial assumptions		(41)	176
Gain on experience adjustments		(376)	82
	¢	(373)	94

(ii) Actuarial assumptions

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

	As of December 31,	
	2020	2019
Nominal discount rate	9.39%	8.81%
Expected salary increase rate	3.93%	3.90%
Average retirement age of current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	3%	3%

Sensitivity analysis

Actuarial assumptions related to life expectancy have been established based on published statistics and mortality rates. The calculation of the severance benefits provision is particularly sensitive to changes in key actuarial assumptions. The following tables show the effects of changes in the discount rate and salary increase percentages on the calculation of the severance benefits provision. The sensitivity analysis presented below has been determined based on possible and reasonable changes in the corresponding assumptions, occurring at the end of the reporting period, while all other variables remain constant. The following sensitivity analysis shows the impact of a 0.5% variation (positive or negative) in the obligation amount. The intermediate value is what RACSA's management selected to perform the calculations.

(In millions of colones)

			As of December 31, 2020		
			Discount rate variation		
			8.89%	9.39%	9.89%
	3.43%	¢	219	204	**190**
Variation in salary increase rate	3.93%	¢	235	**217**	202
	4.43%	¢	**255**	233	216

The minimum amount of the obligation (¢190) occurs if the salary increase rate is the lowest in the sensitivity range (3.43%) and the discount rate is the highest (9.89%). The maximum amount (¢255) occurs in the opposite case. The calculated amount of (¢217) is at the mid-range of this sensitivity analysis.

			As of December 31, 2019		
			Discount rate variation		
			8.31%	8.81%	9.31%
	3.40%	¢	519	474	**436**
Variation in salary increase rate	3.90%	¢	577	**524**	478
	4.40%	¢	**647**	582	528

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

As of December 31, 2020, the average retirement period is 25.9 years, and the average employee seniority was 7.8 years, with an average age of 35.2 years (2019: average retirement period 27 years, average employee seniority 7.6 years, with an average age of 34.2 years).

Defined contribution plans

b. Guarantee and Savings Fund

The Guarantee and Savings Fund was created through Law No. 3625 of December 16, 1965, which adds Article 17 to Law No. 449 dated April 8, 1949, whereby ICE was created. In conformity with this law, such reserves must be used for severance payments and for the guarantee and savings fund for permanent employees. Furthermore, ICE shall continue to make contributions at an amount no less than that contributed by employees to the fund. Funds contributed by ICE are of its property and shall be used for the proposed objectives, in conformity with the regulations issued by the board of directors for this purpose.

In 1988, the ICE Supplemental Pension Fund was added through an arbitration award issued by the Superior Court on Labor Matters. It began operating in 1990 and was given a legal basis in February 2000 by the *Employee Protection Law* (Law No. 7983). In 2008 the *Law on Strengthening and Modernization of Public Entities in Telecommunication Sector* (Law No. 8660) entered into effect.

The Guarantee and Savings Fund includes the following employee benefits:

- Guarantee and Savings Fund
- Supplemental Pension Fund

Benefit – Guarantee and Savings Fund

The Guarantee and Savings Fund was created to provide support to employees. It is funded by both employer and employee contributions. ICE makes a monthly contribution equivalent to 5% of the employees' gross salary (6% until June 2016) and employees make a monthly contribution of 5% of their gross salary.

These contributions are managed by the Guarantee and Savings Fund. After 20 years of service at ICE, employees who retire have the right to the balance reflected in their individual account and ICE's contributions.

Benefit – Supplemental Pension Fund

The main goal of the Supplemental Pension Fund is to contribute to employee welfare by providing an additional amount to any pension fund of the public sector. Every month, ICE transfers an amount equivalent to 4.5% of the employees' monthly gross salary. The returns derived from the management of the contribution amount are capitalized to the supplemental pension system (2.5% of the returns) and to the severance benefits obligation fund for strengthening purposes (the remaining 1% of the returns).

(i) *Personal and institutional contributions*

As indicated above, the Guarantee and Savings Fund comprises two contributions, one made by the employee, equivalent to 5% of the monthly salary earned, and another one made by ICE (employer contribution), equivalent to 5% of the employees' monthly salary. These contributions may be used by employees as retirements savings, to pay off debt, to secure loans or to be withdrawn in the event of termination of employment with ICE.

The Supplemental Pension Fund is in turn composed of two contributions, one made by the employee, equivalent to 1% of the monthly salary, and another one made by ICE (employer contribution), equivalent to 4.5% of the employees' monthly salary. In the event of early separation of employment with ICE, accrued amounts will be managed in conformity with that set forth in Law No. 7983.

(In millions of colones)

Since both plans are defined contribution plans, ICE's obligation is limited solely to the contribution that it agreed to make. Funds are managed by the Guarantee and Savings Fund, so that the final employee benefit amount is determined by the amount of the contributions paid by ICE plus the returns therefrom.

c. ***Employee benefits expense:***

The employee benefits expense is as follows:

		For the year ended December 31,	
		2020	2019
Salaries	¢	281,004	291,850
Social security contributions		64,026	72,922
Defined contribution plans		28,962	30,479
Post-employment benefit expenses		14,144	3,801
	¢	388,136	399,052

Note 20. Accounts payable

Accounts payable are as follows:

		As of December 31,					
		2020			2019		
		Non-current	Current	Total	Non-current	Current	Total
Government	¢	-	10,201	10,201	-	15,255	15,255
Value-added tax and withholdings payable		-	10,608	10,608	-	9,306	9,306
Accounts due to employees		145,283	36,433	181,716	139,475	36,902	176,377
Commercial vendors		-	80247	80,247	-	92,962	92,962
	¢	145,283	137,489	282,772	139,475	154,425	293,900

Accounts due to employees correspond to employee contributions to the Guarantee and Savings Fund (regime) and to the Supplemental Pension Fund (5% and 1%, respectively) of their monthly salary. Those contributions are managed and custodied by ICE through the Guarantee and Savings Fund (see Note 19).

Note 31 includes information about Grupo ICE's exposure to foreign currency and liquidity risks.

(In millions of colones)

Note 21. Contract liabilities

Contract liabilities are as follows:

		As of December 31,					
		2020			2019		
		Non-current	Current	Total	Non-current	Current	Total
Prepaid mobile services (1)	¢	-	4,642	4,642	-	5,046	5,046
Postpaid services (2)		-	7,922	7,922	-	3,167	3,167
Security deposits (3)		62,839	-	62,839	56,968	-	56,968
Total	¢	62,839	12,564	75,403	56,968	8,213	65,181

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

(1) Prepaid mobile services:

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

(2) Postpaid services:

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

(3) Security deposits:

The balance of security deposits in the amount of ¢62,839 (2019: ¢56,968) corresponds mainly to ¢37,141 (2019: ¢30,988) from the Electricity Segment related to the charge made to clients, equivalent to one month's electricity billing, to guarantee payment of the service, and ¢25,698 (2019: ¢25,980) from the Telecom Segment, corresponding to deposits requested from customers to guarantee the rendering of services, for mobile telephony, fixed telephony and roaming.

(Continued)

(In millions of colones)

Note 22. <u>Provisions</u>

Provisions are as follows:

		As of December 31,	
		2020	2019
Litigation provision (Note 32) (1)	¢	8,204	1,659
Provision for mobile terminal warranties (2)		1,152	478
Other		379	264
		9,735	2,401
Less – reclassification of non-current portion		(25)	(683)
	¢	9,710	1,718

Movement in provisions is as follows:

		Litigation provision	Provision for mobile terminal warranties	Other	Total
As of December 31, 2019	¢	1,659	479	263	2,401
Increase for the year		6,557	1,622	212	8,391
Used during the year		(12)	(949)	(96)	(1,057)
As of December 31, 2020	¢	8,204	1,152	379	9,735

A description of the provision accounts is provided below:

(1) <u>Litigation provision</u>

The litigation provision corresponds to an estimate of the probability of an outflow, based on a professional judgement and on the facts and circumstances of the case at the time of analysis. A litigation provision is booked if the probability of existence of an obligation is greater than or equal to 50%. Additionally, Grupo ICE should consider if, due to a past event, it has no realistic alternative but to pay the obligation, taking into account all available evidence and professional judgment.

(2) <u>Provision for mobile terminal warranties</u>

The provision for mobile terminal warranties includes the expected cost of obligations, under local regulations on the sale of assets, according to the best estimate of the outflows required to settle the obligations with customers, made by the corresponding technical and financial areas. Grupo ICE expects to settle most of this provision during the following year.

(In millions of colones)

Note 23. Other liabilities

Other liabilities are as follows:

		As of December 31,	
		2020	2019
Deposits from private individuals or companies	¢	10,701	11,762
Transfer of spare parts – materials (1)		9,662	9,961
Other		743	5,337
	¢	21,106	27,060

(1) Transfer of spare parts – materials:

Correspond to a transfer in favor of Grupo ICE of the costs related to spare parts, assets and tools required for maintenance of the Toro III and Garabito Power Plants, on which ICE made no expenditure. This income is booked in the consolidated statement of profit or loss when the contractually established maintenance services are rendered and inventories assigned to Grupo ICE are used.

Note 24. Guarantees received

Guarantees received in the amount of ¢95,868 (2019: ¢134,243) correspond to performance bonds, guarantees provided by collection agents and bid bonds. A description is provided below:

(1) Performance bonds

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

(2) Collection agents

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

(3) Bid bonds

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

(In millions of colones)

Note 25. Revenue

a) Revenue streams

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

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

		For the year ended December 31,	
		2020	2019
Electricity services	¢	799,237	851,719
Telecom services		580,471	607,645
		1,379,708	1,459,364
Other income (Note 27)			
Construction services		18,133	13,730
Engineering services		6,947	5,433
Infrastructure operation and maintenance services		2,165	2,699
		27,245	21,862
	¢	1,406,953	1,481,226

(In millions of colones)

b) *Disaggregation of revenue from contracts with customers*

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with Grupo ICE's reportable segments (see Note 34).

		Electricity Segment		Telecom Segment		Total	
		2020	2019	2020	2019	2020	2019
Geographical markets:							
Local	¢	782,454	844,248	576,155	589,837	1,358,609	1,434,085
Foreign		16,783	7,471	4,316	17,808	21,099	25,279
	¢	799,237	851,719	580,471	607,645	1,379,708	1,459,364
Products/lines of service:							
Electricity	¢	702,428	741,682	-	-	702,428	741,682
Transmission charges		63,583	75,305	-	-	63,583	75,305
Public lighting		20,327	22,470	-	-	20,327	22,470
Management and other services		12,899	12,262	-	-	12,899	12,262
Telecom		-	-	580,471	607,645	580,471	607,645
	¢	799,237	851,719	580,471	607,645	1,379,708	1,459,364
Timing of revenue recognition:							
Services transferred over time	¢	799,237	851,719	517,163	550,306	1,316,400	1,402,025
Products transferred at a point in time		-	-	63,308	57,339	63,308	57,339
		799,237	851,719	580,471	607,645	1,379,708	1,459,364
Other income		27.245	21,862	-	-	27,245	21,862
	¢	826,482	873,581	580,471	607,645	1,406,953	1,481,226

(In millions of colones)

c) *Contract balances*

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

		As of December 31,	
		2020	2019
Trade receivables (Note 15)	¢	223,482	181,327
Contract liabilities (Note 21)	¢	(75,402)	(65,181)

An amount of ¢8,213 included in contractual obligations as of December 31, 2019, has been recognized as revenue in 2020 (2019: ¢9,262).

d) *Transaction price assigned to remaining performance obligations*

The following table includes revenue expected to be recognized in the future related to the performance of obligations not yet satisfied (or not satisfied at all) as of the reporting date for the Telecom Segment:

		2021	2022
Mobiles telecom services	¢	69,025	20,128

All considerations included in the contracts are included in the aforementioned amounts.

Grupo ICE applies the practical expedient indicated in paragraph 121 of IFRS 15, and it does not disclose information on obligations pending performance with original maturities of one year or less.

e) *Performance obligations and revenue recognition policies*

Revenue is measured based on the consideration specified in a contract with a customer. ICE recognizes revenue when it transfers control over a good or service to a customer. At the date of inception of each contract, ICE determines whether it will satisfy the performance obligations over time or at a point in time.

The Electricity Segment generates income mainly from generation, transmission and distribution of electricity services. The Law on the Costa Rican Public Service Regulatory Authority (ARESEP) (Law No. 7593) of August 9, 1996 establishes that the Regulatory Authority will set prices and rates of public services, specifically with respect to the generation, transmission, distribution and sale of electricity.

The Telecom Segment generates income mainly from mobile services (prepaid and postpaid), data and IP services including internet and TV, sale of terminals and devices, fixed and universal telephone services and interconnection services. Mobiles services and goods may be sold separately (independently) or combined, in packages.

(Continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, both for the Electricity and Telecom Segments.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policy
Sale of electricity services	Revenue from the sale of electricity services includes a single performance obligation (sale of electricity) since ICE has evaluated that contracts with customers do not include the supply of other goods or services. Control, including ownership and risk of loss related to electricity, is transferred to the customer upon delivery of electricity at a single point within the electricity network. Invoices are payable within 30 days and there is no significant financial component.	The performance obligation related to the delivery of electricity is satisfied over time, when the customer receives and simultaneously consumes the benefits related to the electricity service provided. Revenue is recognized as electricity services are rendered, based on monthly billing cycles.
Sale of Telecom services	Revenue from the sale of telecom services includes phone, voice, data and messaging services. Services are invoiced and paid on a monthly basis and there is no significant financial component. The performance obligations related to the delivery of these services are satisfied over time, when the customer receives and simultaneously consumes the benefits related to telecom services, which are identified in different obligations for the different types of services (mobile, fixed, data, messaging, access costs, etc.).	For bundled packages, ICE accounts for individual products and services separately if they are distinct; i.e. if a product or service can be identified separately from other products or services in the bundled package and if a customer can benefit from the good or service by itself. The consideration is allocated between the separate products and services in a bundled package based on their stand-alone selling prices. The stand-alone selling prices are determined based on a list of selling prices at which Grupo ICE sells the mobile phones, terminals and other telecom services. ICE recognizes this revenue as the services are rendered.
Mobile terminals	The performance obligation for mobile terminals is recognized as income at a specific point in time, when control of the asset is transferred to the client, which occurs when the customer signs the agreement and takes ownership of the product.	Grupo ICE recognizes revenue from the sale of mobile terminals when control of the asset is transferred, which occurs when the customer signs the agreement and takes ownership of the product.

(Continued)

(In millions of colones)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policy
	For mobile devices sold separately, customers pay the full amount at the point of sale. For mobile devices sold as part of a combined package, customers usually pay the same amount per month, for a period of 12 to 24 months.	

Grupo ICE does not negotiate warranties separately or offer extended warranties to its customers on the sale of mobiles devices or terminals. The terms of the warranties are generally contractually established by the vendors of those assets and in conformity with local legislation. These warranties are generally for a maximum term of one year. Grupo ICE books a provision in its financial statements to address future claims for this concept (see Note 22).

Note 26. Operating costs and expenses

Operating costs and expenses are as follows:

		Operating costs		Operating expenses	
		For the year ended December 31,			
		2020	2019	2020	2019
Depreciation	¢	306,803	306,449	6,768	5,721
Services		151,506	149,955	66,411	76,265
Salaries and employee benefits		100,697	114,111	156,118	146,721
Service centers		87,987	69,491	31,576	30,641
Leases (Note 18)		56,139	64,431	5,516	1,896
Products, materials and spare parts		75,321	105,424	7,639	29,436
Amortization of intangible assets		11,014	10,678	14,992	15,023
Loss due to impairment of trade receivables		-	-	13,048	21,347
Import of energy		4,886	26,020	-	-
Fuels for thermal generation		2,525	15,323	-	-
Loss on disposal of fixed assets		16,804	17,437	4,356	21,915
Other		12,242	21,836	43,704	47,414
	¢	825,924	901,155	350,128	396,379

(In millions of colones)

Note 27. Other income

Other income is as follows:

		For the year ended December 31, 2020	For the year ended December 31, 2019
Construction services (1)	¢	18,133	13,730
Penalties and fees (execution of guarantees)		12,003	8,285
Engineering services (1)		6,947	5,433
Donations		4,831	1,871
Infrastructure operation and maintenance service		2,165	2,699
Communication services		1,872	1,473
Insurance claim income		1,825	1,446
Sale of waste		1,354	1,498
Application of security deposits		1,106	406
Other		9,096	17,974
	¢	59,332	54,815

(1) Construction and engineering services include invoices for percentage of completion or completion of works, design or other specialized services provided by Grupo ICE to third parties and related to projects in the construction stage.

Note 28. Finance income and finance costs

Finance income and finance costs are as follows:

		For the year ended December 31, 2020	For the year ended December 31, 2019
Finance income under the effective interest method	¢	36,271	36,619
Finance costs (1)		(258,070)	(260,922)
Foreign exchange differences – net (2)		(141,701)	126,977
	¢	(363,500)	(97,326)

(In millions of colones)

(1) Finance costs are as follows:

		For the year ended December 31,	
		2020	2019
Interest on leases (Note 18)	¢	98,391	104,322
Interest on bonds payable		85,781	75,839
Interest on loans payable		59,316	64,583
Interest on other liabilities		10,409	15,972
Loss on impairment of investments		4,173	206
	¢	258,070	260,922

(2) As a result of transactions in foreign currency and the valuation of monetary assets and liabilities denominated in foreign currency, during the year ended December 31, 2020, foreign exchange gains and losses in the amount of ¢430,568 and ¢572,269, respectively, were recognized, for net losses of ¢141,701 (2019: foreign exchange gains and losses of ¢514,243 and ¢387,266, for net gains of ¢126,977). The exchange rate used in the valuation of monetary assets and liabilities in foreign currency as of the reporting date was ¢615.74 (2019: ¢573.53).

Note 29. Explanation of the transition to IFRS

As indicated in Note 2, these are the first consolidated financial statements of Grupo ICE prepared in conformity with International Financial Reporting Standards (IFRS).

The policies indicated in Note 6 have been applied in the preparation of the consolidated financial statements as of and for the year ended December 31, 2020, the comparative information presented in the comparative financial statements as of and for the year ended December 31, 2019 and in the preparation of the opening consolidated statement of financial position under IFRS as of January 1, 2019 (Grupo ICE's date of transition).

In the preparation of the opening consolidated statement of financial position under IFRS, Grupo ICE adjusted the amounts previously reported in the consolidated financial statements prepared according to Grupo ICE's Accounting Policies Manual effective prior to the adoption date. An explanation of how the transition from the framework used prior to IFRS has affected Grupo ICE's financial position, financial performance and cash flows is provided in the tables and notes provided below.

(In millions of colones)

		Previous accounting policies	Effect of transition to IFRS - January 1, 2019	IFRS
Assets				
Non-current assets:				
Property, plant and equipment, net	¢	5,023,345	728,082	5,751,427
Intangible assets, net		91,684	-	91,684
Other assets		18,344	-	18,344
Equity investments		14,198	(11,203)	2,995
Notes and other accounts receivable, net		2,994	184,138	187,132
Investments in financial instruments		122,529	199,754	322,283
Guarantee and Savings Fund		222,212	(222,212)	-
Total non-current assets		**5,495,306**	**878,559**	**6,373,865**
Current assets:				
Inventories		112,366	(31,624)	80,742
Notes and other accounts receivable, net		93,916	(20,503)	73,413
Investments in financial instruments		53,486	104,749	158,235
Trade receivables, net		120,518	-	120,518
Prepaid expenses		50,771	(5,848)	44,923
Other assets		79	3,327	3,406
Cash and cash equivalents		139,672	38,781	178,453
Assets held for sale		-	294	294
Total current assets		**570,808**	**89,177**	**659,984**
Total assets	¢	**6,066,114**	**967,735**	**7,033,849**
Liabilities and equity				
Equity:				
Paid-in capital	¢	155	-	155
Reserves		2,309,913	62,006	2,371,919
Retained earnings		318,559	-	318,559
Equity attributable to owners of Grupo ICE		2,628,627	62,006	2,690,633
Non-controlling interests		5,739	-	5,739
Total equity		**2,634,366**	**62,006**	**2,696,372**
Liabilities:				
Non-current liabilities:				
Bonds payable		1,211,765	(46,219)	1,165,546
Loans payable		887,060	584,306	1,471,366
Lease liabilities		488,057	(26,253)	461,804
Employee benefits		42,657	314,341	356,998
Accounts payable		7,605	124,524	132,129
Contract liabilities		-	55,999	55,999
Deferred income - Government grants		6,495	-	6,495
Guarantee and Savings Fund		222,212	(222,212)	-
Deferred tax liabilities		105,894	-	105,894
Provisions		347	911	1,258
Other liabilities		53,967	(53,967)	-
Total non-current liabilities		**3,026,059**	**731,430**	**3,757,489**
Current liabilities:				
Bonds payable		19,482	21,824	41,306
Loans payable		93,133	30,855	123,988
Lease liabilities		20,189	28,731	48,920
Employee benefits		7,291	93,803	101,094
Accounts payable		160,119	39,725	199,844
Prepaid income		10,309	(10,309)	-
Contract liabilities		-	10,044	10,044
Deferred income - Government grants		-	281	281
Income tax payable		3,487	-	3,487
Accrued employer obligations payable		46,498	(46,498)	-
Accrued interest payable		17,811	4,626	22,437
Provisions		2,860	(85)	2,775
Other liabilities		24,510	1,302	25,812
Total current liabilities		**405,689**	**174,299**	**579,988**
Total liabilities		**3,431,748**	**905,729**	**4,337,477**
Total equity and liabilities	¢	**6,066,114**	**967,735**	**7,033,849**

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

		Previous accounting policies	Effect of transition to IFRS - December 31, 2019	IFRS
Assets				
Non-current assets:				
Property, plant and equipment, net	¢	4,949,308	672,957	5,622,265
Intangible assets, net		111,168	488	111,656
Other assets		18,344	-	18,344
Equity investments		18,173	(11,203)	6,970
Notes and other accounts receivable, net		2,158	190,078	192,236
Investments in financial instruments		73,869	222,715	296,584
Guarantee and Savings Fund		222,645	(222,645)	-
Total non-current assets		**5,395,665**	**852,390**	**6,248,055**
Current assets:				
Inventories		86,687	(29,014)	57,673
Notes and other accounts receivable, net		66,586	(20,727)	45,859
Investments in financial instruments		120,316	102,462	222,778
Trade receivables, net		148,433	(1,471)	146,962
Prepaid expenses		39,861	(21,314)	18,547
Other assets		7,135	(4,970)	2,165
Cash and cash equivalents		205,390	(8,024)	197,366
Assets held for sale		-	90	90
Total current assets		**674,408**	**17,032**	**691,440**
Total assets	¢	**6,070,073**	**869,422**	**6,939,495**
Liabilities and equity				
Equity:				
Paid-in capital	¢	155	-	155
Reserves		2,440,806	67,956	2,508,762
Retained earnings		309,802	-	309,802
Equity attributable to owners of Grupo ICE		2,750,763	67,956	2,818,719
Non-controlling interests		6,083	-	6,083
Total equity		**2,756,846**	**67,956**	**2,824,802**
Liabilities:				
Non-current liabilities:				
Bonds payable		1,090,118	(44,150)	1,045,968
Loans payable		899,030	546,102	1,445,132
Lease liabilities		457,145	(71,115)	386,030
Employee benefits		72,037	341,011	413,048
Accounts payable		-	139,475	139,475
Contract liabilities		-	56,968	56,968
Deferred income - Government grants		8,959	-	8,959
Guarantee and Savings Fund		222,645	(222,645)	-
Deferred tax liabilities		100,319	-	100,319
Provisions		413	270	683
Other liabilities		56,968	(56,968)	-
Total non-current liabilities		**2,907,634**	**688,948**	**3,596,582**
Current liabilities:				
Bonds payable		63,026	(6,728)	56,298
Loans payable		87,129	31,880	119,009
Lease liabilities		20,110	12,166	32,276
Employee benefits		8,023	86,096	94,119
Accounts payable		122,941	31,484	154,425
Prepaid income		8,478	(8,478)	-
Contract liabilities		-	8,213	8,213
Deferred income - Government grants		-	281	281
Income tax payable		6,266	-	6,266
Accrued employer obligations payable		48,487	(48,487)	-
Accrued interest payable		14,713	3,733	18,446
Provisions		1,443	275	1,718
Other liabilities		24,977	2,083	27,060
Total current liabilities		**405,593**	**112,518**	**518,111**
Total liabilities		**3,313,227**	**801,466**	**4,114,693**
Total equity and liabilities	¢	**6,070,073**	**869,422**	**6,939,495**

(Continued)

(In millions of colones)

		Previous accounting policies	Effect of transition to IFRS	IFRS
Revenue	¢	**1,459,364**	-	**1,459,364**
Operating costs:				
Operation and maintenance		510,998	19,821	530,819
Operation and maintenance of leased assets		110,591	(43,928)	66,663
Purchases and supplemental services		223,923	(81,023)	142,900
Costs of sale		-	88,581	88,581
Production management		72,267	(75)	72,192
Total operating costs		917,779	(16,624)	901,155
Gross profit		**541,585**	**16,624**	**558,209**
Other income		74,052	(19,237)	54,815
Operating expenses:				
Administrative expenses		134,213	806	135,019
Selling expenses		240,627	(74,809)	165,818
Preliminary studies		25,745	-	25,745
Supplemental expenses		22,308	(594)	21,714
Impairment loss on trade receivables		20,558	789	21,347
Other expenses		33,509	(6,773)	26,736
Total operating expenses		476,960	(80,581)	396,379
Operating income		**138,677**	**77,968**	**216,645**
Finance income and finance costs:				
Finance income		23,633	12,986	36,619
Finance costs		(180,572)	(80,350)	(260,922)
Foreign exchange differences, net		129,161	(2,184)	126,977
Net finance costs		**(27,778)**	**(69,548)**	**(97,326)**
Share of profit of equity-accounted investees		(136)		(136)
Net profit before tax		**110,763**	**8,420**	**119,183**
Income tax:		5,841	(5,386)	455
Net profit for the year	¢	**116,604**	**3,034**	**119,638**
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Effect of actuarial losses for the year	¢	(27,170)	(7,575)	(34,745)
Loss due to assignment of rights and obligations of the subsidiary		(3,086)	-	(3,086)
	¢	**(30,256)**	**(7,575)**	**(37,831)**
Items that are or may be reclassified subsequently to profit or loss				
Valuation of equity investments at FVOCI	¢	342	166	508
(Loss) gain on fair value of cash flow hedges		33,554	10,496	44,050
Valuation of investments in financial instruments at FVOCI		1,419	-	1,419
		35,315	**10,662**	**45,977**
Other comprehensive income for the year, net of tax		**5,059**	**3,087**	**8,146**
Total comprehensive income for the year	¢	**121,663**	**6,121**	**127,784**
Profit attributable to:				
Owners of Grupo ICE	¢	116,855	3,034	119,889
Non-controlling interests		(251)	-	(251)
	¢	**116,604**	**3,034**	**119,638**
Total comprehensive income attributable to:				
Owners of Grupo ICE	¢	121,329	6,121	127,450
Non-controlling interests		334	-	334
	¢	**121,663**	**6,121**	**127,784**

(In millions of colones)

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

		Non-current assets					*Current assets*						
		Property, plant and equipment, net	Equity investments	Notes and other accounts receivable, net	Investments in financial instruments	Guarantee and Savings Fund	Inventories	Notes and other accounts receivable, net	Investments in financial instruments	Prepaid expenses	Other assets	Cash and cash equivalents	Assets held for sale
		(Note 8)	(Note 10)	(Note 11)	(Note 12)		(Note 13)	(Note 11)	(Note 14)			(Note 16)	
Balances as of December 31, 2018, according to the previous accounting policies	¢	5,023,345	14,198	2,994	122,529	222,212	112,366	93,916	53,486	50,771	79	139,672	-
Adjustments due to the implementation of IFRS													
Changes in accounting policies:													
Deferred cost of terminals (1)		-	-	-	-	-	-	(149)	-	(8,186)	-	-	-
Leases (2)		678,585	(11,203)	-	-	-	-	987	-	-	-	-	-
Special purpose vehicles (Trusts) (3)		17,872	-	5	8	-	-	(25,344)	64,056	2,338	-	26,476	-
Guarantee and Savings Fund (4)		-	-	184,133	199,746	(222,212)	-	4,003	40,693	-	3,327	2,074	294
Reclassification of inventories (5)		31,625	-	-	-	-	(31,624)	-	-	-	-	-	-
Correction of prior-period errors:													
Exchange rate differences (8)		-	-	-	-	-	-	-	-	-	-	10,231	-
Total adjustments due to the implementation of IFRS		728,082	(11,203)	184,138	199,754	(222,212)	(31,624)	(20,503)	104,749	(5,848)	3,327	38,781	294
Balances as of January 1, 2019, according to IFRS	¢	5,751,427	2,995	187,132	322,283	-	80,742	73,413	158,235	44,923	3,406	178,453	294

(Continued)

(In millions of colones)

	Equity	Non-current liabilities								
	Retained earnings	Bonds payable	Loans payable	Lease liabilities	Employee benefits	Accounts payable	Contract liabilities	Other provisions	Guarantee and Savings Fund	Other liabilities
		(Note 17 a)	(Note 17 b)	(Note 17 c)	(Note 19)	(Note 20)	(Note 21)			
Balances as of December 31, 2018, according to the previous accounting policies	¢ 2,309,913	1,211,765	887,060	488,057	42,657	7,605	-	347	222,212	53,967
Adjustments due to the implementation of IFRS										
Changes in accounting policies:										
Deferred cost of terminals (1)	(8,186)	-	-	-	-	-	-	-	-	-
Leases (2)	39,263	-	-	560,218	-	(7,605)	-	-	-	-
Special purpose vehicles (Trusts) (3)	25,386	44,861	584,306	(586,471)	-	-	-	911	-	-
Guarantee and Savings Fund (4)	(4,688)	(91,080)	-	-	446,470	-	-	-	(222,212)	2,032
Reclassification of employee benefits (6)	-	-	-	-	(132,129)	132,129	-	-	-	-
Reclassification of contract liabilities (7)	-	-	-	-	-	-	55,999	-	-	(55,999)
Correction of prior-period errors:	-	-	-	-	-	-	-	-	-	-
Exchange rate differences (8)	10,231	-	-	-	-	-	-	-	-	-
Total adjustments due to the implementation of IFRS	62,006	(46,219)	584,306	(26,253)	314,341	124,524	55,999	911	(222,212)	(53,967)
Balances as of January 1, 2019, according to IFRS	¢ 2,371,919	1,165,546	1,471,366	461,804	356,998	132,129	55,999	1,258	-	-

	Current liabilities											
	Bonds payable	Loans payable	Lease liabilities	Employee benefits	Accounts payable	Prepaid income	Contract liabilities	Deferred income - Government grants	Accrued employer obligations payable	Accrued interest payable	Provisions	Other liabilities
	(Note 17 a)	(Note 17 b)	(Note 17 c)	(Note 19)	(Note 20)		(Note 21)				(Note 22)	(Note 23)
Balances as of December 31, 2018, according to the previous accounting policies	19,482	93,133	20,189	7,291	160,119	10,309	-	-	46,498	17,811	2,860	24,510
Adjustments due to the implementation of IFRS												
Changes in accounting policies:												
Deferred cost of terminals (1)	-	-	-	-	-	-	-	-	-	-	(149)	-
Leases (2)	-	-	76,493	-	-	-	-	-	-	-	-	-
Special purpose vehicles (Trusts) (3)	21,824	30,855	(47,762)	-	4,993	16	-	-	-	6,422	64	7
Guarantee and Savings Fund (4)	-	-	-	81,039	998	-	-	-	-	(1,796)	-	1,295
Reclassification of employee benefits (6)	-	-	-	12,764	33,734	-	-	-	(46,498)	-	-	-
Reclassification of contract liabilities (7)	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior-period errors:	-	-	-	-	-	(10,325)	10,044	281	-	-	-	-
Exchange rate differences (8)	-	-	-	-	-	-	-	-	-	-	-	-
Total adjustments due to the implementation of IFRS	21,824	30,855	28,731	93,803	39,725	(10,309)	10,044	281	(46,498)	4,626	(85)	1,302
Balances as of January 1, 2019, according to IFRS	41,306	123,988	48,920	101,094	199,844	-	10,044	281	-	22,437	2,775	25,812

(Continued)

(In millions of colones)

		Non-current assets						*Current assets*								
		Property, plant and equipment, net (Note 8)	Intangible assets, net (Note 9)	Equity investments (Note 10)	Notes and other accounts receivable, net (Note 11)	Investments in financial instruments (Note 12)	Guarantee and Savings Fund	Inventories (Note 13)	Notes and other accounts receivable, net (Note 11)	Investments in financial instruments (Note 14)	Trade receivables, net (Note 15)	Prepaid expenses	Other assets	Cash and cash equivalents (Note 16)	Assets held for sale
Balances as of December 31, 2019, according to the previous accounting policies	¢	4,949,308	111,168	18,173	2,158	73,869	222,645	86,687	66,586	120,316	148,433	39,861	7,135	205,390	-
Adjustments due to the implementation of IFRS															
Changes in accounting policies:															
Deferred cost of terminals (1)		-	-	-	-	-	-	(76)	87	-	-	(22,885)	-	-	-
Leases (2)		610,193	488	(11,203)	-	-	-	-	-	-	-	-	-	-	-
Special purpose vehicles (Trusts) (3)		33,826	-	-	5	3	-	-	(25,502)	47,194	-	1,571	-	22,881	-
Guarantee and Savings Fund (4)		-	-	-	190,073	222,712	(222,645)	-	4,688	55,268	-	-	(4,970)	2,501	90
Reclassification of inventories (5)		28,938	-	-	-	-	-	(28,938)	-	-	-	-	-	-	-
Correction of prior-period errors:															
Exchange rate differences (8)		-	-	-	-	-	-	-	-	-	(1,471)	-	-	(33,406)	-
Total adjustments due to the implementation of IFRS		672,957	488	(11,203)	190,078	222,715	(222,645)	(29,014)	(20,727)	102,462	(1,471)	(21,314)	(4,970)	(8,024)	90
Balances as of December 31, 2019, according to IFRS	¢	5,622,265	111,656	6,970	192,236	296,584	-	57,673	45,859	222,778	146,962	18,547	2,165	197,366	90

(Continued)

(In millions of colones)

	Equity	*Non-current liabilities*								
	Reserves	Bonds payable	Loans payable	Lease liabilities	Employee benefits	Accounts payable	Contract liabilities	Other provisions	Guarantee and Savings Fund	Other liabilities
		(Note 17 a)	(Note 17 b)	(Note 17 c)	(Note 19)	(Note 20)		(Note 21)		
Balances as of December 31, 2019, according to the previous accounting policies	¢ 2,440,806	1,090,118	899,030	457,145	72,037	-	222,645	-	413	56,968
Changes in accounting policies:										
Deferred cost of terminals (1)	(22,885)	-	-	-	-	-	-	-	-	-
Leases (2)	96,126	-	-	449,931	-	-	-	-	-	-
Special purpose vehicles (Trusts) (3)	23,796	41,834	546,102	(521,046)	-	-	-	-	270	-
Guarantee and Savings Fund (4)	6,306	(85,984)	-	-	480,486	-	(222,645)	-	-	-
Reclassification of employee benefits (6)	-	-	-	-	(139,475)	139,475	-	-	-	-
Reclassification of contract liabilities (7)	-	-	-	-	-	-	-	56,968	-	(56,968)
Correction of prior-period errors:	-	-	-	-	-	-	-	-		
Exchange rate differences (8)	(35,387)	-	-	-	-	-	-	-	-	-
Total adjustments due to the implementation of IFRS	67,956	(44,150)	546,102	(71,115)	341,011	139,475	(222,645)	56,968	270	(56,968)
Balances as of December 31, 2019, according to IFRS	¢ 2,508,762	1,045,968	1,445,132	386,030	413,048	139,475	-	56,968	683	-

	Current liabilities											
	Bonds payable	Loans payable	Lease liabilities	Employee benefits	Accounts payable	Prepaid income	Contract liabilities	Deferred income - Government grants	Accrued employer obligations payable	Accrued interest payable	Provisions	Other liabilities
	(Note 17 b)	(Note 17 b)	(Note 17 c)	(Note 19)	(Note 20)		(Note 21)					(Note 23)
Balances as of December 31, 2019, according to the previous accounting policies	63,026	87,129	20,110	8,023	122,941	8,478	-	-	48,487	14,713	1,443	24,977
Changes in accounting policies:												
Deferred cost of terminals (1)	-	-	-	-	-	-	-	-	-	-	11	-
Leases (2)	-	-	60,247	-	(6,827)	-	-	-	-	-	-	-
Special purpose vehicles (Trusts) (3)	-	31,880	(48,081)	-	(542)	16	-	-	-	5,483	264	3
Guarantee and Savings Fund (4)	(6,728)	-	-	74,511	1,441	-	-	-	-	(1,750)	-	2,080
Reclassification of employee benefits (6)	-	-	-	11,585	36,902	-	-	-	(48,487)	-	-	-
Reclassification of contract liabilities (7)						(8,494)	8,213	281				
Correction of prior-period errors:												
Exchange rate differences (8)	-	-	-	-	510	-	-	-	-	-	-	-
Total adjustments due to the implementation of IFRS	(6,728)	31,880	12,166	86,096	31,484	(8,478)	8,213	281	(48,487)	3,733	275	2,083
Balances as of December 31, 2019, according to IFRS	56,298	119,009	32,276	94,119	154,425	-	8,213	281	-	18,446	1,718	27,060

(Continued)

(In millions of colones)

		Operating costs and expenses											*Finance income and finance costs*					
		Operation and maintenance	Operation and maintenance of leased assets	Purchases and supplemental services	Production management	Other income	Administrative expenses	Selling expenses	Costs of sale	Supplemental expenses	Impairment loss on trade receivables	Other expenses	Finance income	Finance costs	Foreign exchange differences, net	Income tax	Net profit for the year	Other comprehensive income
		(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 27)	(Note 26)	(Note 26)	(Note 26)	(Note 26)	(Note 26)		(Note 28)	(Note 28)	(Note 28)	(Note 29)		
Balances as of December 31, 2019, according to the previous accounting policies	¢	510,998	110,591	223,923	72,267	(74,052)	134,213	240,627	-	22,308	20,558	33,509	(23,633)	180,572	(129,161)	(5,841)	116,604	5,059
Adjustments due to the implementation of IFRS																		
Changes in accounting policies:																		
Deferred cost of terminals (1)		-	-	-	-	-	-	(73,882)	88,581	-	-	-	-	-	-	-	(14,699)	-
Leases (2)		(5,702)	(16,926)	(81,023)	(75)	19,300	69	(556)	-	(594)	-	-	-	19,106	8,760	-	57,641	-
Special purpose vehicles (Trusts) (3)		25,523	(27,002)	-	-	(63)	737	-	-	-	-	-	(3,481)	6,539	(6,576)	5,386	(1,063)	(7,575)
Guarantee and Savings Fund (4)		-	-	-	-	-	-	-	-	-	418	-	(9,505)	9,087	-	-	-	10,662
Correction of prior-period errors:																		
Exchange rate differences (8)		-	-	-	-	-	-	-	-	-	-	(6,773)	-	45,618	-	-	(38,845)	-
Reclassifications from prior-periods:																		
Impairment losses, trade receivables		-	-	-	-	-	-	(371)	-	-	371	-	-	-	-	-	-	-
Total adjustments due to the implementation of IFRS		19,821	(43,928)	(81,023)	(75)	19,237	806	(74,809)	88,581	(594)	789	(6,773)	(12,986)	80,350	2,184	5,386	3,034	3,087
Total as of January 1, 2020, restated	¢	530,819	66,663	142,900	72,192	(54,815)	135,019	165,818	88,581	21,714	21,347	26,736	(36,619)	260,922	(126,977)	(455)	119,638	8,146

(Continued)

(1) Deferred cost of terminals:

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

As a result, Grupo ICE's prepaid expenses and accumulated development reserve decreased by ¢8,186 million as of January 1, 2019, related to the cost of mobile terminals sold during 2017 and 2018 that had been booked as prepaid expenses in Grupo ICE's statement of financial position as of January 1, 2019. As of December 31, 2019, the impact was a decrease of ¢22,885 in prepaid expenses and, an adjustment of ¢14,699 and ¢22,885 to cost of sales and the development reserve, respectively.

Furthermore, Grupo ICE followed the policy of presenting the cost of terminals sold as cost of sales under operating costs in the consolidated statement of profit or loss. With the adoption of IFRS, the cost of terminals sold was reclassified to costs of sale under operating costs in the consolidated statement of profit or loss. The effect of this reclassification from selling expenses to costs of sale in profit or loss for the year ended December 31, 2019, was ¢73,882. The effect of this reclassification, along with the adjustment indicated in the previous paragraph, resulted in the recognition of costs of sale in the amount of ¢88,581 for 2019.

(2) Leases

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

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

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

As of January 1, 2019, as a result of the implementation of IFRS, right-of-use assets were recognized (in property, plant and equipment) in the amount of ¢678,585 and lease liabilities (current and non-current) in the amount of ¢636,711, with the corresponding effects on the development reserve as of that date.

As of December 31, 2019, previously reported figures were also modified, recognizing right-of-use assets (in property, plant and equipment) in the amount of ¢610,193 and lease liabilities (current and non-current) in the amount of ¢510,178, with the corresponding effects on the development reserve. Furthermore, the following effects were recognized in profit or loss as of that date: depreciation expenses of ¢33,542, operation and maintenance expenses of ¢(62,784), finance costs of ¢64,724, foreign currency gains of ¢(36,858) and reversal of lease expenses related to contracts previously recognized in profit or loss in the amount of ¢81,023.

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

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

(3) <u>Special purpose vehicles (trusts)</u>

Prior to January 1, 2019 and prior to the implementation of IFRS, those trusts with which Grupo ICE subscribed agreements for the construction and lease of assets were considered off-balance sheet and were recognized in conformity with the lease agreements with those entities and Grupo ICE's accounting policies, either as finance leases or operating leases.

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

Due to the foregoing, the figures previously reported as of January 1, 2019, as of December 31, 2019 and for the year then ended, were modified due to the incorporation of those special purpose vehicles in the financial figures of Grupo ICE. This resulted in the elimination of lease liabilities for contracts previously classified as finance leases and in the elimination of lease installments for operating leases, and the recognition of trust assets and liabilities in the financial statements of Grupo ICE. The effect of this implementation as of January 1, 2019 and December 31, 2019 is reflected in the line item "incorporation of special purpose vehicles".

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

In 2006, Grupo ICE established a joint arrangement (Toro III Hydroelectric Project Trust) through a business alliance with a public entity (JASEC) for the construction and operation of a hydroelectric plant, whereby it subscribed a trust and construction agreement, as well as a lease agreement. With the implementation of IFRS, it was determined that this investment met the definition of a joint operation, given that: a) the contractual agreement grants both Grupo ICE and its counterparty joint control over the agreement, b) there is equal participation (50%) in the rights, obligations, income and expenses, as well as in the decision-making regarding the activities relevant to the entity, and c) no investor individually controls the entity in which ownership is held (the trust), see Note 6(a).

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

(4) Guarantee and Savings Fund

The Guarantee and Savings Fund manages the contributions made by Grupo ICE and by its employees to the Guarantee and Savings Fund (regime) and the Supplemental Pension Fund. In conformity with the accounting policies of Grupo ICE effective until January 1, 2019, the Guarantee and Savings Fund was considered a separate vehicle and Grupo ICE recognized in its financial statements only an assets and liabilities account for the total value of the economic contributions made to both funds. With the adoption of IFRS, and since in its conformity with the law for the creation of ICE the assets and liabilities of the Guarantee and Savings Fund belong to Grupo ICE, it integrated that fund in its financial statements, recognizing the fund's assets and liabilities. The effect of implementation as of January 1, 2019 and as of December 31, 2019 is reflected in the adjustments due to implementation of IFRS, in the line item "Guarantee and Savings Fund".

(5) Reclassification of inventories:

Previously, Grupo ICE recognized the cost of spare parts, maintenance equipment and safety parts as part of inventories within current assets. As a result of the implementation of IFRS, Grupo ICE reclassified those inventories as part of property, plant and equipment, given that they are expected to be used for more than one period. Reclassified inventories amount to ¢28,938 and to ¢31,625 as of December 31, 2019 and January 1, 2019, respectively.

(6) Employee benefits:

Prior to the implementation of IFRS, Grupo ICE followed the policy of presenting the following employee benefits as "Employer Obligations Payable": vacations, back-to-school bonus, statutory Christmas bonus and occupational hazard insurance. With the adoption of IFRS, the accruals for those concepts are presented under employee benefit liabilities, in conformity with IAS 19 *Employee Benefits*.

(7) Reclassification of contract liabilities

Grupo ICE followed the policy of booking prepaid income from the sale of prepaid mobile services and postpaid mobile services that had not been consumed by the customer as of the cutoff date as "Prepaid income". In addition, it booked in "Other liabilities" the security deposits made by customers to secure the payment of the mobile service, fixed services and roaming. Due to the implementation of IFRS, Grupo ICE presented the balances derived from those transactions as "Contract liabilities" in conformity with IFRS 15 *Revenue*.

(Continued)

(8) Foreign exchange differences:

As a result of the review process of the "Cash in banks" account, it was determined that as of December 31, 2019 and as of January 1, 2019, the closing exchange rate was not updated in a cash account denominated in US dollars, related to the purchase and sale of foreign currency, payments and collections. Furthermore, there were minor errors in the valuation of accounts receivable and payable denominated in US dollars. This error resulted in an adjustment to cash accounts, accounts receivable and accounts payable which is not due to a change in the accounting policy. The effect of the correction of that error was an increase in the cash account and in the development reserve as of January 1, 2019 in the amount of ¢10,231. As of December 31, 2019, other effects included: a decrease in the cash account and in accounts receivable in the amount of ¢33,406 and ¢1,471, respectively; an increase in accounts payable of ¢510 and a decrease in the development reserve of ¢35,387. Additionally, a foreign exchange loss was recognized in consolidated profit or loss for 2019 in the amount of ¢45,618.

Note 30. Tax regulations

Tax obligations

Grupo ICE is subject to tax obligations governed by the *Income Tax Law* (Law No. 7092) and amendments thereto, the Regulations to the Income Tax Law and amendments thereto, the *Value-added Tax Law* (Law No. 6826) and amendments thereto, the Regulations to Value-added Tax Law, the *General Customs Law* and regulations and amendments thereto, the Decree – *Law to Create ICE* (Law No. 449), the *Law on Strengthening and Modernization of Public Telecommunication Companies* (Law No. 8660), *the General Telecommunications Law* (Law No. 8642), the *Law to Strengthen Public Finances* (Law No. 9635), and the regulations to title IV of Law No. 9635, named Tax Responsibility of the Republic.

(a) Strengthening of public finances

On December 4, 2018, the *Law to Strengthen Public Finances* (Law No. 9635) was published in Alcance No. 202 of the Official Gazette. It introduces important changes to the tax treatments defined in the *Income Tax Law* and the *General Sales Tax Law*, in effect as of that date, substituting the latter for a value-added Tax (VAT). The proposed amendments entered into effect six months after their publication. The main aspects worth noting related to the new legislation are as follows:

(Continued)

- For VAT, the effect of the new law is a tax on the sale and import of tangible and intangible assets, and the rendering of all services in the country, independent of their origin or means. It includes some exceptions and specific treatments with lower rates. The general rate is 13%, but for some goods and services a special rate ranging from 1% to 4 % is initially applied, with a subsequent increase of some of the rates. For energy consumption, a monthly exempt amount of 280 Kw is established; if the amount is exceeded, 13% will be applied to the total. Regarding tax credit, the calculation and use of a proportional credit is established.

- Law No. 9635 establishes a tax on capital gains, where the taxable event is all income from a Costa Rican source, derived from capital and from realized gains or losses on capital, if and when related to assets or rights held by the taxpayer; as well as foreign exchange differences on assets or liabilities resulting from operations, if and when the taxable income is not subject to income tax. This tax has a general rate of 15%.

- Regarding salary tax, Law No. 9635 establishes tax brackets and additional rates; therefore, salaries paid to employees are subject to tax rates of 0%, 10% and 15%. In addition, two additional tax brackets are created, with tax rates of 20% and 25%.

- Regarding withholding tax on remittances abroad, Law No. 9635 increases the rate to 25% for professional fees, commissions, per diem and other independent personal services.

(b) Income tax

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

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

(In millions of colones)

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

ICE must capitalize the total net profit obtained each year to the development reserve, and its profit is exempt from the payment of income tax; consequently, no income tax obligation is generated. However, in its normal transactions, the Tax Administration applies income tax withholdings that are subsequently applied as a credit to the value-added tax liability.

The subsidiaries of ICE are subject to income tax payment.

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

Income tax income (expense) is as follows:

		For the year ended December 31,	
		2020	2019
Current	¢	(3,837)	(6,081)
Deferred		5,954	6,536
	¢	2,117	455

In conformity with the *Income Tax Law*, the subsidiaries file their income tax returns for the 12 months ending December 31 of each year.

Subsidiaries are subject to the payment of income tax on profit from their activities, at a rate of 30%. The current tax expense is determined according to the tax laws in effect in Costa Rica.

The income tax returns filed by the subsidiaries for the years ended December 31, 2020, 2019, 2018 and 2017 are open to review by the Tax Authorities.

(In millions of colones)

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

		For the year ended December 31,			
		2020		2019	
Net (loss) profit, before tax	¢	(100,477)		119,183	
Less:					
ICE's nontaxable (profit) loss		105,093		(135,799)	
Profit (loss) before tax, adjusted and attributable to subsidiaries		4,616		(16,616)	
Tax loss of subsidiary CNFL		-		24,376	
Profit before tax		4,616		7,760	
Expected income tax expense		1385	30%	2,328	30%
Plus (less) tax effect on:					
- Non-taxable income		(15)	-1%	(169)	-12%
- Appropriation to legal reserve			0%	(194)	-13%
- Difference between fiscal and financial period		428	18%	(4)	0%
- Non-deductible expenses		29	1%	767	53%
- Other		(3,944)	112%	(3,183)	364%
Tax income	¢	(2,117)		(455)	

(Continued)

(En millones de colones)

Deferred tax:

Deferred tax is as follows:

		December 31, 2020	Recognized in profit or loss for the year	Effect of deferred tax	December 31, 2019
Deferred tax asset:					
Employee benefits	¢	177	(140)	-	317
Inventories		145	18	-	127
Accounts receivable		169	137	-	32
Provisions		3	-	-	3
Lease liabilities		21	12	-	9
Accounts payable		61	61		-
		576	88	-	488
Deferred tax liability:					
Property, plant and equipment, net		(94,941)	5,866	-	(100,807)
	¢	(94,365)	5,954	-	(100,319)

(Continúa)

(En millones de colones)

		December 31, 2019	Recognized in profit or loss for the year	Effect of deferred tax	January 1, 2019
Deferred tax asset:					
Employee benefits	¢	317	80	-	237
Inventories		127	27	-	100
Accounts receivable		32	(13)	-	45
Provisions		3	(10)	-	13
Lease liabilities		9	9	-	-
		488	93	-	395
Deferred tax liability:					
Property, plant and equipment, net		(100,807)	6,443	(961)	(106,289)
	¢	(100,319)	6,536	(961)	(105,894)

(In millions of colones)

Unrecognized deferred tax assets

As of December 31, 2020 and 2019, the subsidiary CNFL did not recognize deferred tax assets in its statement of financial position because, considering its projections for the following year, it does not expect to generate sufficient future taxable profits to allow for the recognition of deferred tax assets as of that date. The amount of deferred tax assets is related to the following items:

		December 31,			
		2020		2019	
		Amount	Tax effect	Amount	Tax effect
Accounts receivable	¢	1,527	458	1686	506
Inventories		877	263	951	285
Employee benefits		3,161	948	4,521	1,356
	¢	5,565	1,669	7,158	2,147

(c) Value-added tax

Grupo ICE also pays value added tax pursuant to the amendment to Law No. 6826, derived from Law No. 9635. This is a value-added tax on the sale of goods and rendering of services, with some exceptions. For the sale of energy for residential electricity consumption, the tax rate is 5% on amounts consumed in excess of 280 kW per month versus 13% for commercial consumption and the rendering of telecommunications services.

Because it is a value-added tax, Grupo ICE pays this tax on the goods and services required to perform its economic activity. Pursuant to Article 16 and the following articles of Law No. 9635, sales tax paid on goods and inputs that are used in the production of electricity and telecom services can be applied as a credit to the value added tax liability for the period.

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

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

This tax is defined in a tax return issued for periods of one calendar year. The tax return must be filed by March 15 of each year, and the tax is paid in four equal installments on the 15th of March, June, September, and December of each year following the corresponding fiscal year-end.

(Continued)

The tax rate is set annually by SUTEL no later than November 30 of the corresponding fiscal year. The tax rate ranges between 1.5% and 3%; the final rate shall be based on SUTEL's estimates of the costs of the projects to be executed in the following budget year and the target estimated income. In the event that the tax rate is not defined by SUTEL in a timely manner, the applicable rate for the immediately preceding tax period will be used.

(e) Quasi-fiscal tax on telephony services

Through the *Amendment to the Creation of the Quasi-fiscal Contribution to the Telecommunications Service destined to Finance the Costa Rican Red Cross Association* (Law. No. 9896) published on September 30, 2020, a quasi-fiscal contribution to the Costa Rican Red Cross Association was created.

This contribution equals to 1% of the amounts paid by the end user (owners of a telecommunications service understood as mobile telephone services or any method of payment, traditional telephony, VoIP telephony, fixed and mobile internet and dedicated lines). The amounts collected must be paid on the 15th of each month, at the latest. This law amends Law No. 8690, which originated the Creation of the Quasi-fiscal Contribution to the Telecommunications Service to Finance the Costa Rican Red Cross Association.

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

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

(g) Customs taxes

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

(h) Other obligations

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

- Wages, non-salary payments, compensation for personal services, and per diem allowances.
- Remittances or credits paid to non-domiciled individuals or entities for services such as transportation, communications, technical financial advisory services, personal services, and other services, based on the rates and categories defined in Articles 55 and 59 of the *Income Tax Law*.

(In millions of colones)

Note 31. Financial risk management

a) Accountiing classifications and fair values

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

			December 31, 2020									
			Carrying amount						Fair value			
	Note		Fair value - hedging instruments	FVCORI – Debt and equity instruments	Financial assets at amortized cost	Financial assets at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Equity investments	10	¢	-	6,202	-	-	-	6,202	-	-	6,202	6,202
Notes and other receivables, net	11		-	-	240,148	-	-	240,148	-	-	-	-
Investments in financial instruments	12, 14		-	356,950	85,242	36,969	-	479,161	-	393,919	-	393,919
Trade receivables, net	15		-	-	175,829	-	-	175,829	-	-	-	-
Cash and cash equivalents	16		-	-	311,743	-	-	311,743	-	-	-	-
		¢	-	363,152	812,962	36,969	-	1,213,083	-	393,919	6,202	400,121
Financial liabilities												
Financial debt	17(a) 17(b)	¢	-	-	-	-	2,668,091	2,668,091	-	2,609,874	-	2,609,874
Accounts payable	20		-	-	-	-	282,772	282,772	-	-	-	-
Derivative financial instruments			2,491	-	-	-	-	2,491	-	2,491	-	2,491
Total financial liabilities		¢	2,491	-	-	-	2,950,863	2,953,354	-	2,612,365	-	2,612,365

(In millions of colones)

			December 31, 2019									
			Carrying amount						Fair value			
	Note		Fair value - hedging instruments	FVCORI – Debt and equity instruments	Financial assets at amortized cost	Financial assets at FVTPL	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Equity investments	10	¢	-	5,749	-	-	-	5,749	-	-	5,749	5,749
Notes and other receivables, net	11		-	-	238,095	-	-	238,095	-	-	-	-
Investments in financial instruments	12, 14		-	330,098	167,510	21,754	-	519,362	-	351,852	-	351,852
Trade receivables, net	15		-	-	146,962	-	-	146,962	-	-	-	-
Cash and cash equivalents	16		-	-	197,366	-	-	197,366	-	-	-	-
		¢	-	335,847	749,933	21,754	-	1,107,534	-	351,852	5,749	357,601
Financial liabilities												
Financial debt	17(a) 17(b)	¢	-	-	-	-	2,666,407	2,666,407	-	2,685,020	-	2,685,020
Accounts payable	20		-	-	-	-	293,900	293,900	-	-	-	-
Derivative financial instruments			4,265	-	-	-	-	4,265	-	4,265	-	4,265
Total financial liabilities		¢	4,265	-	-	-	2,960,307	2,964,572	-	2,689,285	-	2,689,285

(Continued)

Fair value of financial instruments

As of December 31, 2020, Grupo ICE has no transfers between levels in the fair value hierarchy.

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

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

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

ii. *Equity investments*

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

iii. *Investments in financial instruments*

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

iv. *Derivative financial instruments – cash flow hedges*

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

v. <u>*Debt*</u>

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

To determine the fair value of the long-term debt as of December 31, 2020, a discount rate was used of between 4.80% and 15.96% in colones and between 0.78% and 23.14% in US dollars (2019: 10.52% in colones and between 5.27% and 7.04% in US dollars), which is the rate available for ICE.

b) <u>*Financial risk management*</u>

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

- credit risk
- liquidity risk
- market risk.

i) <u>*Risk management framework*</u>

The purpose of the Corporate Policy for Financial Risk and Financial Hedging Management is to provide Grupo ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization and to increase and diversify income included in the business strategy, through an effective management of financial risks using market opportunities, based on available financial instruments, in accordance with the Risk Management and Financial Risk Hedging Strategy.

Risk management policies and systems are revised annually to ensure that they reflect changes in market conditions and in Grupo ICE's activities. This review is performed by the Financial Management through the Financial Risk process.

The use of financial derivatives is in accordance with the Corporate Policy for Financial Risk and Financial Hedging Management, which provide guidelines on foreign currency, interest rate and credit risks, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity.

Each year, the Financial Management, together with all managements of Grupo ICE, develops a financial risk map for Grupo ICE, and follows-up on controls and action plans on an annual basis.

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

The Corporate Policy for Financial Risk and Financial Hedging Management, the Manual of Policies and Procedures for Risk Management and the associated systems are part of the risk management framework, which ensure an effective management within Grupo ICE. Moreover, changes in market conditions and in ICE's financial activities are controlled and monitored by analyzing the risk environment. The Internal Audit department oversees compliance with ICE's risk management policies and procedures and it assesses the adequacy of the risk management framework in relation to the risks. Furthermore, the Audit Committee's work plan includes overseeing risk management.

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

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

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

(In millions of colones)

ii) *Credit risk*

Credit risk is the risk of financial loss to Grupo ICE if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Grupo ICE's notes and receivables and investment instruments.

To mitigate this risk, the risk ratings assigned to investments by rating agencies are monitored and tracked. Investment limits have also been established for Grupo ICE's portfolio by market (local and international), sector (public, other public sector, and private), instrument, issuer, and issue. Grupo ICE does not receive collateral guarantees for this risk.

Exposure to credit risk

The balance of each financial asset represents the maximum exposure to credit risk as follows:

			As of December 31,	
Fair value of financial assets	Note		2020	2019
Notes and other receivables, net	11	¢	240,148	238,095
Investments in financial instruments	12, 14		479,161	519,362
Trade receivables, net	15		175,829	146,962
Cash and cash equivalents	16		311,743	197,366
		¢	1,206,881	1,101,785

(i) *Accounts receivable*

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

For all other financial instruments, Grupo ICE recognizes lifetime ECL.

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

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

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

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

- Both mass collection and specific collection management, centralized in the Billing and Income Management Division, through three methods depending on the collection stage, with different strategies for each stage.

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

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

- In the event that the outstanding balance is not recovered, the administrative collection process begins after 35 days for the Electricity Segment and after 90 days for the Telecom Segment. Administrative collection involves locating the customer and informing about the delinquency as well as notifying the credit protection agency so that the situation is included in the customer's credit history. For such purposes, Grupo ICE uses companies dedicated to collections or coordinating payment arrangements with customers to mitigate arrears.

- Residual past due accounts (representing less than 1%) are studied to determine the need to include them in legal collection, a process performed through the subsidiary Gestión de Cobro, S.A.

The accounting policy for booking the allowance for expected credit losses is detailed below.

Trade receivables

Grupo ICE determines a collective impairment model for trade receivables segmented by service (Electricity and Telecom), which are in turn segmented by customer (General, Government, Subsidiaries, Private Banks, Foreign Customers). All operations classified under a segment have certain similar risk characteristics such as commercial conditions, term and business types.

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

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

For the Electricity and Telecom Segments' accounts with the government, a 0.01% loss rate was determined based on the nature of those accounts, which expectation of payment is high. Accounts with arrears more than 360 days were identified as well but, since they are due from State-owned entities, it was determined that receivables will be collected fully.

For the Electricity Segment's accounts with private banks, a 0.01% loss rate was determined based on the nature of those accounts, since the entities' ability to pay is strong and, historically, they have not been in arrears as a result of their ability to pay.

For the Electricity Segment's accounts with distribution companies, a 0.01% loss rate was determined based on the nature of those accounts, and, historically, since the companies have been in arrears of 22 days in average. For exceptional cases such as the one in 2020 involving JASEC, with invoices from June to September in arrears higher than the ones mentioned, the expected loss is estimated based on the effect of the time value of money.

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

(Continued)

(In millions of colones)

As of December 31, 2020, the maximum exposure to credit risk for trade receivables (see Note 15) by geographic region is as follows:

Geographic region		As of December 31, 2020	2019
Local	¢	220,692	181,283
Foreign		2,790	44
		223,482	181,327
Allowance for impairment loss		(47,653)	(34,365)
	¢	175,829	146,962

Grupo ICE's exposure to credit risk is mainly affected by the individual characteristics of each customer. As of December 31, 2020, there is not a significant concentration of credit risk.

The aging of the balance of trade receivables (see Note 15) and the allowance for expected losses is as follows:

December 31, 2020	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	11.52%	¢	79,597	9,173	No
1 to 30 days	0.86%		81,334	703	No
31 to 60 days	9.44%		10,371	979	Yes
61 to 90 days	5.04%		10,867	548	Yes
More than 90 days	87.74%		41,313	36,250	Yes
		¢	223,482	47,653	

December 31, 2019	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	1.83%	¢	58,920	1,080	No
1 to 30 days	3.03%		28,690	868	No
31 to 60 days	8.77%		31,331	2,747	Yes
61 to 90 days	6.53%		7,881	515	Yes
More than 90 days	53.49%		54,505	29,155	Yes
		¢	181,327	34,365	

(In millions of colones)

An analysis of the credit quality of trade receivables is as follows:

		As of December 31, 2020	2019
Current	¢	205,268	166,307
In legal and administrative collection		18,214	15,020
		223,482	181,327
Allowance for impairment losses		(47,653)	(34,365)
	¢	175,829	146,962

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

		As of December 31, 2020	2019
Opening balance	¢	34,365	42,152
Used		(2,053)	(28,332)
Recognized		11,805	20,545
Allowance increase		3,536	-
Closing balance	¢	47,653	34,365

Non-trade receivables

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

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

(In millions of colones)

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

December 31, 2020	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.11%	¢	7,201	8	No
1 to 30 days	0.89%		1,127	10	No
31 to 60 days	0.00%		3,342	4	No
61 to 90 days	0.00%		378	1	No
More than 90 days	12.97%		10,797	1,400	Yes
		¢	22,845	1,423	

December 31, 2019	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	2.53%	¢	10,065	255	No
1 to 30 days	4.12%		2,451	101	No
31 to 60 days	10.65%		366	39	No
61 to 90 days	4.79%		793	38	Yes
More than 90 days	21.57%		7,744	1,670	Yes
		¢	21,419	2,103	

Movement in the allowance for impairment of non-trade receivables is as follows:

		As of December 31,	
		2020	2019
Opening balance	¢	2,103	1,893
Used		(1,486)	(50)
Recognized		806	260
Closing balance	¢	1,423	2,103

Notes receivable

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

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

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

(In millions of colones)

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

The aging of the balance of notes receivable for payment arrangements (see Note 11) and its allowance for expected losses are as follows:

December 31, 2020	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.27%	¢	177,276	470	No
1 to 30 days	1.81%		4,151	75	No
31 to 60 days	5.29%		1,001	53	No
61 to 90 days	31.48%		54	17	No
More than 90 days	35.67%		9,136	3,259	Yes
		¢	191,618	3,874	

December 31, 2019	Weighted-average loss rate		Gross carrying amount	Loss allowance	Credit-impaired
Current (not past due)	0.20%	¢	181,062	369	No
1 to 30 days	0.32%		4,647	15	No
31 to 60 days	1.53%		2,093	32	No
61 to 90 days	23.53%		34	8	No
More than 90 days	67.18%		9,312	3,303	Yes
		¢	197,148	3,727	

Movement in the allowance for impairment of notes receivable is as follows:

		As of December 31,	
		2020	2019
Opening balance	¢	3,727	3,198
Used		(290)	(13)
Recognized		437	542
Closing balance	¢	3,874	3,727

(i) *Investments in financial instruments*

Grupo ICE determines a collective impairment model for investments in financial instruments segmented by the local rating which has been adjusted to the international rating of each instrument. It is important to point out that the credit risk of the instruments issued by the central government is assumed as instruments catalogued under a Low Credit Risk policy because:

- The instrument has a low risk of default;
- The adverse changes in the economy and business conditions in the long term may, but may not necessarily, reduce the borrower's ability to meet its contractual obligations.
- Historically no default events have occurred.

A government or bank financial instrument will be considered as a Low Credit Risk and will be assigned the best rating at country level; it will be classified in stage 1, establishing a 12-month ECL allowance.

For private stock market investments, other than government investments under the collective model, the following criteria were defined to determine each stage within the model:

- Stage 1 – (i) Instruments with external rating as of the date of valuation within an investment grade rating (instruments with international rating B). A qualitative analysis is required to determine if significant changes within the investment grade rating occur in a downtrend in order to identify a significant increase. (ii) Instrument with external rating without an impairment in the rating from level 1 rating downwards from the commencement date.
- Stage 2 – (i) Instrument with movement of more than 1 level in the rating downwards from the commencement date of the instrument, when such criteria is supported by more than one rating agency. (ii) Instrument with arrears more than 30 days in the payment of principal or interest.
- Stage 3 – (i) Instrument whose credit rating as of the evaluation date is lower than a DDD rating and its initial credit rating was higher than this one and (ii) Instrument with arrears more than 90 days in the payment of principal and interest.

To establish qualitative elements of increase in risk, different elements are defined, which under the judgment of an expert could affect the operation's significant increase in risk.

The qualitative assessment is applicable in the event that an instrument has an external rating with investment grade rating, but that rating has decreased significantly with respect to the rating granted at the initial date of the financial asset.

For the current model, a recovery rate could not be identified because no default factor was observed; therefore, to assign a Loss Given Default (LGD) the percentage recommended by Basel, i.e. 45%, was used.

For the allowance for collective impairment, a probability of default was defined, obtained through the marginal default matrix issued by Fitch in its global annual default study and transition matrices for corporations. Fitch's matrix is considered to determine a weighted probability that is unbiased, as long as it considers diverse scenarios obtained by such rating agency, by comprising diverse and numerous institutions, with which past event information, current conditions and forecasts in future economic conditions are included, since they are part of the analysis of the rating agency, to grant a credit rating.

Credit ratings for investments in financial instruments are as follows:

	As of December 31,									
	2020					2019				
Credit rating	FVTPL	FVOCI	At amortized cost			FVTPL	FVOCI	At amortized cost		
In millions of colones		12-month ECL	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired		12-month ECL	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired
Between BB- and BB-	-	-	-	-	-	-	-	-	-	-
Between B- and B+	36,969	356,950	70,504	14,738	-	21,754	330,098	167,510	-	-
Between C and CCC+	-	-	-	-	-	-	-	-	-	-
D	-	-	-	-	-	-	-	-	-	-
Total	36,969	356,950	70,504	14,738	-	21,754	330,098	167,510	-	-

(Continued)

Movement in the allowance for impairment of investments in financial instruments at amortized cost is as follows:

	As of December 31, 2020			
In millions of colones	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit impaired	Total
Balance as of January 1	40	-	-	40
New net measurement of correlation of loss amount	-	-	-	-
Transfer to lifetime ECL - not credit impaired	(15)	15	-	-
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	-	-	-	-
Financial assets acquired	100	-	-	100
Balance as of December 31	125	15	-	140

	As of December 31, 2019			
In millions of colones	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit impaired	Total
Balance as of January 1	-	-	-	-
New net measurement of correlation of loss amount	-	-	-	-
Transfer to lifetime ECL - not credit impaired	-	-	-	-
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	-	-	-	-
Financial assets acquired	40	-	-	40
Balance as of December 31	40	-	-	40

Movement in the allowance for impairment of investments in financial instruments at FVOCI during the year is as follows:

	As of December 31, 2020			
In millions of colones	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	Total
Balance as of January 1	2,467	-	-	2,467
New net measurement of correlation of loss amount	(1,170)	-	-	(1,170)
Transfer to lifetime ECL - not credit impaired	-	2,470	-	2,470
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	(44)	-	-	(44)
Financial assets acquired	784	-	-	784
Balance as of December 31	2,037	2,470	-	4,507

	As of December 31, 2019			
In millions of colones	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL - credit-impaired	Total
Balance as of January 1	2,214	-	-	2,214
New net measurement of correlation of loss amount	(620)	-	-	(620)
Transfer to lifetime ECL - not credit impaired	-	-	-	-
Transfer to lifetime ECL - credit-impaired	-	-	-	-
Financial assets paid	(21)	-	-	(21)
Financial assets acquired	894	-	-	894
Balance as of December 31	2,467	-	-	2,467

(Continued)

<u>*Cash and cash equivalents*</u>

As of December 31, 2020, Grupo ICE holds cash and cash equivalents in the amount of ¢311,743 (2019: ¢197,366). Cash and cash equivalents are held with banks and financial entities that are supported by guarantees of the local government; therefore, they were rated within the B range according to Fitch.

The impairment of cash and cash equivalents has not been measured on the basis of the 12-month ECL because, due to their nature, they are considered highly-liquid and very short-term instruments. Consequently, Grupo ICE considers that its cash and cash equivalents have a low credit risk.

iii) <u>*Liquidity risk:*</u>

Liquidity risk is the risk that Grupo ICE will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Grupo ICE's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Grupo ICE's reputation.

Actions have been taken in the Electricity and Telecom Segments to obtain greater assurance with respect to projected payment of liabilities and more precise projections of income in order to control treasury cash flows. Such measures in the projection of liabilities and expenses, as well as in the income of both segments, permit better monitoring and tracking cash flows and liquidity risk exposure, as well as an improved management of treasury operations related to the buying and selling of currency and access to short- and medium-term lines of credit, among others.

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

Treasury management includes preparation of the projected cash flows based on the company's budget information and a weekly schedule that details daily cash inflows and outflows to visualize cash flow behavior and determine daily liquidity needs. As part of this process, to obtain more accurate information on payments, especially those having a strong impact on cash flows, in compliance with Treasury's policies, segments and different areas of Grupo ICE must send the programming of payments for a 12-month period. Another important input is data obtained from the Enterprise Resource Planning (ERP) accounting system, which furnishes the exact amount and deadline of payments as established in the agreements.

(Continued)

Additionally, there is coordination with business units regarding income behavior and with areas responsible for finance management to optimize treasury management and achieve a better matching between income and timely attention to payment obligations.

Grupo ICE's liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Furthermore, treasury policies define payments to providers to be made once a week, with payment terms of a maximum of 30 days, except for commitments with fixed, unavoidable settlement dates, from the time the event originating the payment takes place and the invoice is presented. Also, policies establish that payments must be made by bank transfer, and payment orders must be processed through the ERP System.

Lines of credit are part of the instruments used by management to finance needs for working capital, issue of bid and performance bonds, and opening and refinancing of letters of credit. Over the years, lines of credit have become one of the most often used short-term financing options.

As of December 31, 2020, uncommitted, short-term lines of credit in US dollars are available for letters of credit, guarantees and working capital, with variable interest rates in the amount of US$160 million.

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

(In millions of colones)

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities as of the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements (if any).

		Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
Non-current liabilities:							
Bonds payable	¢	720,010	1,425,464	-	170,448	269,193	985,823
Loans payable		1,435,803	1,803,341	-	272,603	388,678	1,142,060
Lease liabilities		375,391	672,886	-	184,933	181,040	306,913
Accounts payable		145,283	145,283	-	-	-	145,283
Total non-current liabilities		2,676,487	4,046,974	-	627,984	838,911	2,580,079
Current liabilities:							
Bonds payable		380,870	467,751	467,751	-	-	-
Loans payable		131,408	205,620	205,620	-	-	-
Lease liabilities		38,953	89,132	89,132	-	-	-
Accounts payable		137,489	137,489	137,489	-	-	-
Total current liabilities		688,720	899,992	899,992	-	-	-
	¢	3,365,207	4,946,966	899,992	627,984	838,911	2,580,079

(In millions of colones)

The following are the contractual maturities of financial liabilities for December 31, 2019, including interest:

		Carrying amount	Contractual cash flows	12 months or less	1-2 years	2-5 years	More than 5 years
Non-current liabilities:							
Bonds payable	¢	1,045,968	1,628,675	-	552,986	314,517	761,172
Loans payable		1,445,132	1,701,400	-	340,416	389,618	971,366
Lease liabilities		386,030	756,879	-	162,638	254,222	340,019
Accounts payable		139,475	139,475	-	-	-	139,475
Total non-current liabilities		3,016,605	4,226,429	-	1,056,040	958,357	2,212,032
Current liabilities:							
Bonds payable		56,298	136,544	136,544	-	-	-
Loans payable		119,009	202,851	202,851	-	-	-
Lease liabilities		32,276	80,221	80,221	-	-	-
Accounts payable		154,425	154,425	154,425	-	-	-
Total current liabilities		362,008	574,041	574,041	-	-	-
	¢	3,378,613	4,800,470	574,041	1,056,040	958,357	2,212,032

As indicated in Note 17, Grupo ICE holds secured bank loans that contain debt restrictions. A future non-compliance with those restrictions may require Grupo ICE to settle the loan before the date indicated in the table above; therefore, loan conditions are monitored periodically by the Treasury Department and are regularly reported to Finance Management to ensure compliance.

iv) *Market risk:*

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

Grupo ICE uses derivative financial instruments to manage existing market risks. All hedging operations are valued according to the market value provided by the issuer of the instrument. Hedge accounting is used for qualifying instruments that are formally designated in order to mitigate volatility in the market prices of the financial instruments that have an effect on profit or loss.

Derivative financial instruments are traded with first tier banks with which confidentiality agreements and other documentation to trade derivatives have been subscribed. Based on the risk strategy, Grupo ICE has elected to manage derivatives specifically to hedge risks derived from existing liabilities.

The following risks are hedged by acquired derivative financial operations: variations in local and foreign interest rates and foreign exchange rates, which affect cash flows, the value of instruments, etc. The entity currently holds four derivative financial instruments: one to hedge interest rate risk (Interest Rate Swap); two to hedge against the yen/US dollar fluctuations (Cross Currency Swap); and one to hedge against the US dollar/colon fluctuations (Currency Swap).

Management of the reform to the reference rate and related risks

Overview

A fundamental reform of the most significant reference interest rate is underway globally, including the replacement of some Interbank Offered Rates (IBOR) with alternative, nearly risk-free rates (the so called IBOR reform). ICE has exposures to IBOR, specifically to the London Interbank Offered Rate (LIBOR), on its financial instruments that will be replaced or reformed as part of these initiatives market-wide. There is uncertainty about the transition methods in the market in general. ICE anticipates that the IBOR reform will have an effect on its risk management and derivatives accounting.

The Finance Management monitors and manages ICE's transition process to alternative rates. ICE assesses the extent to which agreements make reference to LIBOR cash flows, whether those agreements would require to be modified due to the LIBOR reform and how to manage the communication with the counterparties about the LIBOR reform.

Derivatives

ICE holds interest rate swaps for risk management purposes and that are designated as fair value hedges through profit or loss. Interest rate swaps have floating components that are indexed at LIBOR. ICE's derivative instruments are ruled by agreements based on the framework agreements of the International Swaps Derivatives Association (ISDA).

ISDA is currently revising its standardized agreements in light of the LIBOR reform and plans to amend certain floating rate options in the 2006 ISDA Definitions to include fallback that would apply to certain permanently discontinued key rates.

ISDA is expected to publish a LIBOR Fallback Supplement to amend the 2006 ISDA Definitions and a LIBOR Fallback Protocol to facilitate multilateral amendments to include the amended floating rate operations in the derivatives transactions entered into prior to the date of the supplement. ICE currently plans to adhere to the protocol and monitor whether its counterparties are also adhered. If this plan changes or there are counterparties that will not adhere to the protocol, the new fallbacks can be incorporated via bilateral negotiation between Grupo ICE and the counterparties.

Currency risk

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

The financial hedging policy seeks to hedge at least 10% of the total exposure in US dollars, using hedging instruments or financial derivatives to mitigate the currency risks. These instruments must be designated as hedging instruments; instruments for speculation are not accepted. Consequently, these instruments will be booked applying "hedge accounting" provided that accounting standards requirements are met.

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

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

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

Exposure to currency risk

As of December 31, Grupo ICE's exposure to currency risk is as follows:

		US Dollars December 31,		Yen December 31,		Euro December 31,	
(In millions)		2020	2019	2020	2019	2020	2019
Assets:							
Investments in financial instruments	¢	289	304	-	-	-	-
Notes and other accounts receivable		3	7	-	-	-	-
Cash and cash equivalents		170	113	-	-	-	-
Trade receivables, net		10	8	-	-	6	1
Non-trade receivables, net		55	71	450	21	-	-
		527	503	450	21	6	1
Liabilities:							
Bonds payable		1,475	1,567	-	-	-	-
Loans payable		1,230	1,550	21,502	21,311	-	-
Lease liabilities		673	728	-	-	-	-
Accounts payable		318	55	565	570	6	1
Accrued interest payable		1	75	91	122	-	-
Other liabilities		3	2	-	-	-	-
Prepaid income		2	-	-	-	-	-
Security deposits		1	-	-	-	-	-
		3,703	3,977	22,158	22,003	6	1
Excess liabilities over assets	¢	3,176	3,474	21,708	21,982	-	-

(In millions of colones)

The main exchange rates used are as follows:

	Exchange rate - US dollar As of December 31, 2020	2019
Euro	1.23	1.12
Colones	615.74	573.53
Japanese yen	103.07	108.50

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

Sensitivity analysis

The table below shows the sensitivity as of December 31, 2020 and 2019 to a strengthening or weakening of the exchange rate of the US dollar with respect to the colon. Grupo ICE applies a sensitivity rate of 10%, which represents its best estimate of the exchange rate variations of the US dollar with respect to the colon.

		As of December 31, 2020	2019
Sensitivity to a strengthening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,955,590	1,992,443
Net position in US dollars	US$	3,176	3,474
Net position in US dollars at the closing exchange rate with a 10% strengthening of the exchange rate	¢	2,151,149	2,191,688
Loss	¢	(195,559)	(199,245)
Sensitivity to a weakening of the exchange rate:			
Net position in US dollars at the closing exchange rate	¢	1,955,590	1,992,443
Net position in US dollars	US$	3,176	3,474
Net position in US dollars at the closing exchange rate with a 10% weakening of the exchange rate	¢	1,760,031	1,793,199
Gain	¢	195,559	199,244

(In millions of colones)

The table below shows the sensibility as of December 31, 2020 and 2019 to a strengthening or weakening of the exchange rate of the Yen with respect to the colon. Grupo ICE applies a sensitivity rate of 10%, which represents its best estimate of exchange rate variations of the Yen with respect to the colon.

		As of December 31,	
		2020	2019
Sensitivity to a strengthening of the exchange rate:			
Net position in Yen at the closing exchange rate	¢	129,684	116,197
Net position in Yen	JPY	21,708	21,982
Net position in Yen at the closing exchange rate with a 10% strengthening of the exchange rate	¢	142,652	127,817
Loss	¢	(12,968)	(11,620)
Sensitivity to a weakening of the exchange rate:			
Net position in Yen at the closing exchange rate	¢	129,682	116,197
Net position in Yen	JPY	21,708	21,982
Net position in Yen at the closing exchange rate with a 10% weakening of the exchange rate	¢	116,714	104,577
Gain	¢	12,968	11,620

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

Interest rate risk

Interest rate risk is the risk that the market value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

Through its Corporate Policy for Financial Risk and Financial Hedging Management and its Risk Strategy, Grupo ICE adopts a financial hedging policy that establishes that the minimum interest rate risk exposure at a variable rate is 40%. This is achieved by entering into fixed-rate hedge instruments or by considering liabilities at a fixed rate. By using interest rate swaps, the variability in cash flows attributable to interest rate risk is hedged.

Exposure to interest rate risk

Grupo ICE maintains significant assets and liabilities, mainly represented by temporary investments, long-term investments, bonds payable, loans payable and lease liabilities, which are subject to interest rate variations, using as reference the LIBOR and the base deposit rate set by BCCR.

(In millions of colones)

Details of the interest rates on financial assets and liabilities are provided in the following notes:

	Note
Notes and other receivables	11
Investments in financial instruments	12, 14
Bonds payable	17(a)
Loans payable	17(b)
Lease liabilities	17(c)

As of the date of the consolidated financial statements, the interest rate profile related to financial instruments is as follows:

		Nominal amount	
		2020	2019
Fixed-rate instruments:			
Financial assets	¢	305,821	229,732
Financial liabilities		(1,159,384)	(1,094,062)
		(853,563)	(864,330)
Effect of interest rate swaps		-	-
	¢	(853,563)	(864,330)
Variable-rate instruments:			
Financial assets	¢	361,085	483,051
Financial liabilities		(1,923,051)	(1,990,652)
		(1,561,966)	(1,507,601)
Effect of interest rate swaps		(1,388)	(1,099)
	¢	(1,563,354)	(1,508,700)

Sensitivity analysis

In managing interest rate risk, Grupo ICE aims to reduce the impact of short-term fluctuations on its earnings. With respect to temporary investments, long-term investments, bonds payable, loans payable, and lease liabilities, permanent changes in interest rates would affect its profit or loss.

(In millions of colones)

Fixed rates: it is estimated that an overall increase or decrease of one percentage point in fixed interest rates would have caused the following changes in financial assets and liabilities:

		Effects on profit or loss			
		As of December 31,			
		2020		2019	
		1% strengthening	1% weakening	1% strengthening	1% weakening
Investments in financial instruments	¢	3,058	(3,058)	2,297	(2,297)
Bonds payable		8,659	(8,659)	8,700	(8,700)
Loans payable		2,931	(2,931)	2,234	(2,234)
Lease liabilities		4	(4)	7	(7)
	¢	14,652	(14,652)	13,238	(13,328)

Variable rates: it is estimated that an overall increase or decrease of one percentage point in variable interest rates would have caused the following changes in financial assets and liabilities:

		Effects on profit or loss			
		As of December 31,			
		2020		2019	
		1% strengthening	1% weakening	1% strengthening	1% weakening
Investments in financial instruments	¢	1,733	(1,733)	2,896	(2,896)
Notes receivable		1,878	(1,878)	1,934	(1,934)
Bonds payable		2,350	(2,350)	2,323	(2,323)
Loans payable		12,741	(12,741)	13,408	(13,408)
Lease liabilities		4,139	(4,139)	4,177	(4,177)
	¢	22,841	(22,841)	24,738	(24,738)

(In millions of colones)

c) Derivative assets and liabilities designated as cash flow hedges

Cash flows related to derivative financial instruments at fair value are shown below. Expected cash flows consider the projected estimates for each derivative:

		December 31, 2020						
		Market value	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Currency risk								
Forward exchange contracts								
Cross-currency swap	¢	(2,936)	2,551	424	734	579	814	-
Cross-currency swap		1,987	2,082	346	599	822	315	-
Non-deliverable currency swap - Tranche a-1		(154)	299	79	132	88	-	-
Interest rate risk								
Interest rate swaps								
Forward starting swap		(1,388)	428	360	54	14	-	-
	¢	(2,491)	5,360	1,209	1,519	1,503	1,129	-

(In millions of colones)

Cash flows related to derivative financial instruments at fair value are shown below. Expected cash flows consider the projected estimates for each derivative:

	December 31, 2019						
	Market value	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Currency risk							
Forward exchange contracts							
Cross-currency swap	¢ (3,911)	3,516	501	888	734	1,278	115
Cross-currency swap	2,016	2,659	379	672	993	615	-
Non-deliverable currency swap - Tranche a-1	(267)	374	93	147	134	-	-
Non-deliverable currency swap - 3 years	(1,004)	1,024	489	535	-	-	-
Interest rate risk							
Interest rate swaps							
Forward starting swap	(1,099)	280	159	85	36	-	-
	¢ (4,265)	7,853	1,621	2,327	1,897	1,893	115

(In millions of colones)

For fair value hedges, expected cash flows for the primary instrument and the hedging derivative as of December 31, 2020 and 2019 are presented below.

		December 31, 2020		
		Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢	35,625	14,250	21,375

		December 31, 2019		
		Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢	49,875	14,250	35,625

(In millions of colones)

As of December 31, 2020, the general characteristics of positions exposed to market risk that are being hedged with derivatives are presented below:

	PR003 Tranche A D091319		PFI -019 US dollar/colon Tranche A-1 E15-96556		PR004 Yen NEM120618ICE		PF-021 Yen C34569	
Hedged debt	BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3	
Bank	CITIBANK		CITIBANK		CITIBANK		SCOTIABANK	
Principal amount (nominal amount)	USD	42.7	USD	42.7	JPY	2,926.1	JPY	2,733.9
Hedged amount	USD	-	CRC	22.785	USD	32.1	USD	22.1
Change in the value of the hedge instrument recognized in other comprehensive income	USD	-2.3	USD	-0.250	USD	-4.8	USD	3.2
Line in the statement of profit or loss	Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments	
Exchange rate	N/A		CRC	533	USD	91	USD	123.3
Contract date	01/27/2009		9/18/2015		10/20/2009		12/3/2015	
Hedged inception date or first payment	14/01/2010		1/14/2016		10/22/2012		4/20/2016	
Hedge maturity date	14/7/2023		7/14/2023		4/20/2026		4/20/2026	
Term	14 years		7 years, 8 months and 5 days		14 years		10 years, 5 months	
Base rate	6M LIBOR		3.23%		-		-	
Spread 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	
Hedged risk	Interest rate		Exchange rate Us dollar/colón		Exchange rate Yen/US dollar		Exchange rate Yen/US dollar	
Instrument	Interest rate swap		Non-deliverable exchange of payment flows		Cross-currency swap		Non-deliverable currency swap	

(In millions of colones)

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

	PR003 Tranch A D091319		PFI -019 US dollar/colón Tranch A-1 E15-96556		PR004 Yen NEM120618ICE		PF-021 Yen C34569		US dollar/colón - 3 years C34812601207	
Hedged debt	BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3		2043 bonds	
Bank	CITIBANK		CITIBANK		CITIBANK		SCOTIABANK		CITIBANK	
Hedged principal amount	USD	49.8	USD	49.8	JPY	3,413.7	JPY	3,479.6	USD	200
Hedged amount	USD		CRC	34,178	USD	37.5	USD	28.2	CRC	113,216
Carrying amount	-		-		-		-		USD	200
Line in the statement of financial position	-		-		-		-		Memoranda accounts	
Change in the value of the hedge instrument recognized in other comprehensive income	-		-		-		-		USD	-1.50
Change in the value of the hedge instrument recognized in the statement of profit or loss	USD	-1.79	USD	-0.669	USD	-6.2	USD	3.2	-	-
Line in the statement of profit or loss	Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		Expense account: Valuation of financial instruments		-	-
Exchange rate	N/A		CRC	533	USD	91	USD	123.3	CRC	566.08
Contract date	1/27/2009		9/18/2015		10/20/2009		12/3/2015		11/22/2017	
Hedged inception date or first payment	1/14/2010		1/14/2016		10/22/2012		4/20/2016		11/15/2017	
Hedge maturity date	7/14/2023		7/14/2023		4/20/2026		4/20/2026		11/15/2020	
Term	14 years		7 years, 8 months and 5 days		14 years		10 years 5 months		3 years	
Base rate	6M LIBOR		3.23%		-		-		6.375%	
Spread 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	Interest rate		Exchange rate Us dollar/colón		Exchange rate Yen/US dollar		Exchange rate Yen/US dollar		Exchange rate Us dollar/colón	
Instrument	Interest rate swap		Non-deliverable exchange of payment flows		Cross-currency swap		Non-deliverable currency swap		Cross-currency swap	

(Continued)

(In millions of colones)

Capital management

Article 17 of Chapter IV "Equity and Earnings" of the *Law to Create the Costa Rican Electricity Institute* (Law No. 449) dated April 8, 1949 sets forth that "ICE's financial policy will be to reinvest its net profit from the sale of electricity and from any other sources in financing and executing national electrification plans and promoting the electricity industry." The Government shall not receive any portion of that profit since ICE is not to be considered a productive source of revenue for the Costa Rican Internal Revenue Service. Instead, it is to use all means at its disposal to increase the production of electricity as a basic industry of Costa Rica.

The policy is to maintain a strong capital base so as to maintain general market confidence and secure the future growth of ICE. Capital management aims at ensuring that capital and financial investments have the highest returns by adequately balancing the debt level and the capital invested, reducing risk.

In 2020 and 2019, Grupo ICE's capital management remained unchanged and ICE was not subject to external capital requirements.

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

		As of December 31,	
Debt to equity ratio		2020	2019
Total liabilities	¢	4,133,738	4,114,693
Less cash and cash equivalents		(311,743)	(197,366)
Net debt		3,821,995	3,917,327
Total equity		2,709,793	2,824,802
Plus (less) amounts accumulated in equity related to cash flow hedges		(10,634)	1,995
Adjusted equity	¢	2,699,159	2,826,797
Debt to equity ratio	¢	1.416	1.386

Note 32. <u>Contingent assets and liabilities</u>

Grupo ICE is a defendant in various lawsuits estimated in the amount of ¢71,071. As of December 31, 2020, the provision for those lawsuits amounts to ¢8,204 (2019: ¢1,659).

Below are the main proceedings which amounts have been estimated and provisions recorded in the consolidated financial statements:

a) Grupo ICE is required to reimburse an amount of $4.6 million (¢1,798) agreed to purchase Cable Visión on December 5, 2013, which is a response to tax contingencies payable to the Tax Administration for the entity's fiscal periods before the sale. Grupo ICE opposes to the amount of the claim, since deductions have to be applied to that amount in relation to the payments made for the periods running from 2010 to 2013. As of December 31, 2020, in the opinion of the legal counsel, Grupo ICE has provisioned an amount of ¢1,798 related to the resolution of this lawsuit (see Note 22).

b) Ordinary proceedings filed by RANGE for failure by the contractor Huawei to comply with the quality of the fiber optic cable, which had deformations that do not comply with the terms of reference of the established bid. As of December 31, 2020, the ordinary proceedings are in process and, based on the opinion of the legal counsel, Grupo ICE has provisioned an amount of ¢4,668 (see Note 22).

Below are the main proceedings for which amounts have been estimated and, based on the opinion of the legal counsel, management has not recognized any provision in the consolidated financial statements:

a) Lawsuit filed by the entity Hidroeléctrica Noble S.A. against the State, the subsidiary CNFL and Grupo ICE, seeking the declaration of dissolution of CNFL due to the maturity of its legal term. It also requests to order Grupo ICE to continue to provide CNFL services and to acquire the total shares of the plaintiff for the price as determined by the Tax Court of the Ministry of Finance. Moreover, it seeks Grupo ICE to assume all CNFL assets and liabilities and execute the payments of court and personal costs. As of December 31, 2020, the estimated amount is ¢814.

b) Administrative proceedings (execution of judgment). ARESEP and SUTEL filed a lawsuit for the execution of attorney's fees, plus legal interest. The amount of such costs was executed based on the estimate of damages made by Grupo ICE, applying the schedule of fees, plus interest. On March 25, 2019, ICE answered the lawsuit, rejected the amounts requested by ARESEP and SUTEL, and granted a payment of ¢1 for each of them. As of December 31, 2020 and 2019, the estimated amount is ¢1,731.

(Continued)

c) Execution proceedings, file No. 17-003025-1763-CJ, filed by Caja Costarricense de Seguro Social for legal collection against ICE, requesting payment of the contribution made by State-owned entities to the Disability, Old Age and Death Benefit System (RIVM), in accordance with Article 78 of the *Employee Protection Law*. An opposition is filed since ICE must make a reinvestment of its profits. Moreover, the collection relates to the subsidiaries of ICE, which is inadmissible. As of December 31, 2020 and 2019, the estimated amount is ¢2,186.

d) Ghella Spa Costa Rica: This claim seeks the annulment of the limitations established in an addendum to the contract with CNFL for design, construction, equipment, and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount of the proceedings is ¢21,047.

e) Grupo Corporativo SARET filed an early precautionary measure against CNFL for execution of the performance bond for collection of penalties. Furthermore, the plaintiff filed a formal claim for damages, lost wages, and other. The estimated amount of the proceedings is ¢8,339.

f) Instalaciones Inabensa, S.A.: This case was initiated for the collection of penalties during the project for underground electrification of San José with CNFL. The plaintiff seeks the collection of claims and reimbursement of penalties, filed during the stage of execution of the aforementioned project. The estimated amount of the proceedings is ¢11,138.

g) The Capulín Hydroelectric Plant Project corresponds to a hydroelectric project started by the company P.H. Hidrotárcoles, S.A. and considered in power purchase agreement subscribed by ICE and that entity on April 24, 2012. According to the terms of agreement, once the start order was issued P.H. Hidrotárcoles, S.A. had to begin the construction of the plant in August 2012, and the beginning of commercial operations was scheduled for August 2015. However, due to delays in the construction process, Grupo ICE initiated administrative proceedings in December 2015 seeking termination of this agreement as well as a reprimand and warning to P.H. Hidrotárcoles, S.A. due to noncompliance with the guaranteed date for beginning of operations, given that at the date when the plant should have been completed the progress was 20%.

On February 21, 2017, the Administrative Court of Appeals issued a final decision rejecting the precautionary measure requested by the entity. Consequently, Grupo ICE was able to continue with the termination proceedings. During the course of the proceedings, P.H. Hidrotárcoles, S.A. repeatedly attempted to stop them by filing motions for substitution of members of the Órgano Director (Directing Body), and it even filed a judicial complaint against the officials that make up that body; however, all motions of recusal were rejected and the judicial complaint was declared inadmissible by the Administrative Court in January 2018.

(Continued)

Below are the main proceedings which management considers that are likely to have a favorable outcome for Grupo ICE:

The Chucás Hydroelectric Power Plant is a hydroelectric project located between the cantons of Mora and Atenas, in the provinces of San José and Alajuela, respectively. Its construction began in 2011, and the beginning of operations was scheduled for September 2014; however, due to delays in the construction process, the hydroelectric power plant was ready to start operations until November 2016. As a result of this delay, and in accordance with the power purchase agreement subscribed with that entity on February 3, 2011, ICE processed a fine in the amount of US$9.4 (¢5,092).

Subsequently, P.H. Chucás, S.A. began an arbitration process before the International Center for Conciliation and Arbitration (CICA), an entity affiliated to the Costa Rican-American Chamber of Commerce (AmCham), claiming the recognition of the excess costs incurred in the construction of the hydroelectric power plant and declaring that Grupo ICE was not entitled to a fine since the delay was caused by force majeure events. The alleged excess costs amount to US$173 (the budgeted cost for construction was US$107, but the final cost reported to the arbitration tribunal was US$280). P.H. Chucás, S.A. considers that these excess costs were the result of unforeseeable factors such as geological and other factors. In November 2017, CICA issued an arbitration award in favor of P.H. Chucás, S.A., determining that Grupo ICE had to pay the amount of the alleged excess costs, professional fees, among others. Furthermore, the arbitration award indicated that ICE did not have the right to exercise the penalty clause (charging the aforementioned fine). The main argument of the arbitration tribunal was the obligation to pay the real cost or the real value of the power plant in order to restore the economic equilibrium of the agreement and to avoid the alleged unjust enrichment by Grupo ICE. The arbitration award required Grupo ICE to pay US$112.7 and ¢6,328.

On December 15, 2017, Grupo ICE filed an appeal for annulment of the aforementioned arbitration award before the First Chamber of the Supreme Court of Justice, arguing the existence of defects that render it invalid, namely: conflict of interest of the arbitrators, violation of due process, violation of the principle of impartiality, violation of the rules of the arbitration procedure due to denial of rights to a hearing on evidence and unequal treatment, lack of uniformity of the jurisprudence, violation of the regulations of public interest, among others. According to the *Alternative Dispute Resolution Act*, filing of an appeal for annulment does not suspend enforcement of the Arbitration Award; therefore, the contractor may invoke its enforcement. However, in order to do so, P.H. Chucás, S.A. would have to file judicial proceedings for execution of judgment against Grupo ICE, to which ARESEP would necessarily be a party as regulator of the Electricity Segment and entity responsible for setting rates.

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

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

(In millions of colones)

In the opinion of Grupo ICE's management and its legal counsel, due to the arguments of the appeal for annulment filed before the First Chamber of the Supreme Court of Justice and the criminal complaint filed against the arbitrators before the Public Ministry, the case is likely to have a favorable outcome for Grupo ICE. Accordingly, the recording of a provision was considered unnecessary.

Contingent assets:

Grupo ICE has also filed a number of lawsuits for a total of ¢14,583 and are in different stages. Most of them are related to goods and services suppliers. However, as of December 31, 2020 and 2019, no contingent assets have been recorded due to the status of those proceedings.

Note 33. <u>Balances and transactions with related parties</u>

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

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

		Receivable		Payable	
		As of December 31,		As of December 31,	
		2020	2019	2020	2019
Government entities	¢	46,866	47,399	10,201	15,225
Autonomous institutions		5,207	6,874	-	-
Other related parties		2,887	2,266	-	-
Empresa Propietaria de la Red, S.A.		2,022	2,023	-	-
	¢	56,982	58,562	10,201	15,225

As of December 31, 2020, bonuses and loans payable with State-owned financial entities amounted to ¢499,015 and ¢631,229 (2019: ¢532,958 and ¢503,854), respectively (see Note 17 (a) and (b), respectively).

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

	Note		As of December 31, 2020	2019
Cash equivalents	16	¢	12,449	7,639
Investments in financial instruments	12		240,543	276,133
Investments in financial instruments	14		180,408	125,322
		¢	433,400	409,094

(In millions of colones)

As of December 31, 2020, interest on securities due from with State-owned financial entities amounts to ¢594 (2019: ¢1,505).

As of December 31, 2020, ownership interest in autonomous and non-governmental agencies amount to ¢7,305 (2019: ¢6,970) (see Note 10).

Compensation to key management personnel

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

		As of December 31,	
		2020	2019
Short-term benefits	¢	5,947	6,174
Post-employment benefits		264	534
Other long-term benefits		404	459
Severance benefits		18	85
	¢	6,633	7,252

Compensation to key management personnel includes wages and contributions to a defined benefit plan (severance benefits) and other long-term benefits paid during the year.

Note 34. Segment information

(a) Basis for segmentation

Grupo ICE has the following reportable segments:

- Telecom Segment, which includes ICE's Telecom Sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA) and Gestión Cobro Grupo ICE, S.A.

- Electricity Segment, which includes ICE's Electricity Sector, Compañía Nacional de Fuerza y Luz, S.A. (CNFL) and Gestión Cobro Grupo ICE, S.A.

Segment information is presented to the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance, focusing on Grupo ICE's different business segments that are subject to different risks and returns.

Profit or loss, assets, and liabilities of the segment include items directly attributable to a segment as well as those that can be reasonably attributed. Information on each reporting segment is as follows:

(In millions of colones)

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

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

(c) Revenue and profit or loss by segment

Information related to each reportable segment is set out below:

		For the years ended December 31,					
		Electricity		Telecom		Consolidated total	
		2020	2019	2020	2019	2020	2019
External revenues	¢	799,237	851,719	580,471	607,645	1,379,708	1,459,364
Inter-segment revenue		8,697	6,905	2,928	2,872	11,625	9,777
Segment revenue		807,934	858,624	583,398	610,517	1,391,333	1,469,141
Depreciation and amortization		160,691	162,461	178,886	175,410	339,577	337,871
Finance income		23,440	22,915	12,831	13,704	36,271	36,619
Finance costs		(232,980)	(239,308)	(25,090)	(21,614)	(258,070)	(260,922)
Foreign currency differences, net		(137,447)	116,051	(4,254)	10,926	(141,701)	126,977
Investments in joint ventures		-	-	35	(136)	35	(136)
Income tax expense		2,787	1,150	(670)	(695)	2,117	455
Profit (loss), net	¢	(90,848)	153,182	(7,512)	(33,544)	(98,360)	119,638

The revenue by segment reported in the previous table represents revenue generated by external clients. See Note 25 for a breakdown of that revenue by product.

Revenue from operations between segments is as follows:

- Revenue from sale of services by the Electricity Segment to the Telecom Segment in the amount of ¢8,697 in 2020 (2019: ¢6,905).
- Revenue from the sale of services by the Telecom Segment to the Electricity Segment in the amount of ¢2,928 in 2020 (2019: ¢2,872).

(In millions of colones)

Corporate expenses are allocated to the different segments based on the Activity-based Costing (ABC) methodology, approved by the board of directors, which measures the costs of products and services based on the quantification of productive, operating and administrative activities necessary for the rendering of those products and services. This expense allocation methodology includes cost drivers as a way to guarantee a proper allocation of the costs of the support areas in the services provided to each segment. The bases of allocation used are called cost generators or drivers, through which the allocation of the resources consumed by the processes or activities is made.

(d) Assets and liabilities by segment

		For the years ended December 31,					
		Electricity		Telecom		Total consolidated	
		2020	2019	2020	2019	2020	2019
Assets	¢	5,439,076	5,562,336	1,404,455	1,377,159	6,843,531	6,939,495
Liabilities	¢	3,423,852	3,440,587	709,886	674,106	4,133,738	4,114,693

To assess the performance and allocate resources to the segments:

- There are no assets or liabilities that are not assigned to the segments.

- All assets and liabilities used jointly by the reportable segments are allocated using the methodology for assignment of corporate expenses to the segments, which establishes the financing percentages according to the drivers defined by each business segment for the different services provided by the Administrative and Service Center areas to the business segments. Each service has a specific unit of measurement and the allocation is made based on consumption, using the Activity-based Costing (ABC) methodology, approved for Grupo ICE by the board of directors.

(In millions of colones)

(e) Other segment information

		Additions to non-current assets	
		As of December 31,	
		2020	2019
Telecom	¢	130,992	154,620
Electricity		140,408	291,563
	¢	271,400	446,183

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

Note 35. COVID-19 pandemic

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

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

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

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

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

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

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

(Continued)

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

Note 36. <u>Subsequent events</u>

Through the Minutes of the meeting held on January 12, 2021 by the board of directors of the subsidiary CNFL, subscribing a new loan operation with a local bank was approved to refinance liabilities in the amount of ¢38,600. The main terms and conditions that are expected to be formalized in that loan operation are summarized as follows: term of 15 years, semiannual payment, secured by a joint and several guarantee by ICE and bearing interest at a rate equivalent to the base deposit rate plus 3.25%.