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

Consolidated Financial Statements

December 31, 2016
(With corresponding figures for 2015)

(With Independent Auditors' Report thereon)

(Translation into English of the original Independent
Auditors' Report issued in Spanish)

KPMG

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Independent Auditors' Report

To the Board of Directors
Instituto Costarricense de Electricidad (ICE)

Qualified Opinion

We have audited the consolidated financial statements of Instituto Costarricense de Electricidad (ICE) and subsidiaries (hereinafter "ICE Group"), which comprise the consolidated balance sheet as of December 31, 2016, and the consolidated statements of income and expenses, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects on the consolidated financial statements of the matters described in the first and second paragraphs included in the *Basis for Qualified Opinion* section, the accompanying consolidated financial statements of ICE Group as of December 31, 2016 and for the year then ended were prepared, in all material respects, in accordance with the accounting policies accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica.

Basis for Qualified Opinion

As indicated in note 2.e), during 2016, ICE adopted the component accounting policy for its property, machinery, and equipment by adjusting its accounting records starting 2016. However, one of its subsidiaries did not perform the corresponding technical analysis to apply component accounting. The net value of the subsidiary's property, machinery, and equipment subject to the aforementioned analysis amounts to ¢406,672 (in millions) as of December 31, 2016. Accordingly, we were unable to determine whether it would have been necessary to perform an adjustment to depreciation expenses, accumulated depreciation, and retained earnings of that subsidiary as of and for the year ended December 31, 2016.

As indicated in notes 13 and 44, and as required in its accounting policy on prepaid expenses, during 2016 ICE performed the amortization of the cost incurred in purchases of energy from independent power producers, using as a reference the approval and communication of the Intendencia de Energía [Energy Management Office] (the Regulator) stating that the cost amounting to ¢24,393.6 (in millions) would be included in the electricity rates to be applied in the period from January to December 2016. However, we were informed that due to an omission by the Energy Management Office such cost was not included in the rates for that period; therefore, the recognition by the Energy Management Office was transferred to the 2017 rate-setting process. ICE's management decided not to modify the accounting treatment used in 2016 applied to that cost, considering that the process used to amortize such cost was based on the Energy Management Office's approval and communication to include such cost in the 2016 rates. The accounting treatment given to that cost in 2016 does not agree with the accounting policy mentioned in item v) *Prepaid expenses* of note 3-e) *Current assets*, which gives rise to underestimated net surplus and *"Prepaid expenses"* in the amount of ¢24,393.6 (in millions) as of and for the year ended December 31, 2016.

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 ICE Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together 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.

Emphasis of Matter - Basis of Accounting

We draw attention to note 2-a to the consolidated financial statements, which describes the basis of accounting used in preparing these consolidated financial statements, which is not an internationally recognized comprehensive basis of accounting. As indicated in that note, the consolidated financial statements have been prepared by ICE with the purpose of complying with the accounting principles accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica. As a result, these consolidated financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Such consolidated financial statements have been used by local regulators and creditors on a regular basis.

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 below as key audit matters to be communicated in our report.

The key audit matter	How our audit addressed the key audit matter
1. Revenue recognition: ICE Group has two main sources of revenue, the Electricity Segment and the Telecom Segment. Of these two, recognition of revenue from the Telecom Segment is considered a key audit matter due to the variety of products and systems used for revenue recognition.	In this area, our audit procedures included control testing and substantive procedures, such as: • evaluating relevant IT systems and the design and operating effectiveness of controls on the booking of revenue transactions. In doing so, we involved 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 performed by the *Billing and Revenue Management Office-Telecom Management* to determine the nature and origin of the reconciliation items evidenced between the collections received and accounts receivable from customers; • based on the revenue subledger, identifying unusual items, determining their nature and origin; • performing analytic substantive testing of the various plans; • recalculating post-paid plan revenue; • obtaining confirmations for a sample of sales performed by the various prepaid product trading companies; • recalculating prepaid income received for prepaid products; and • establishing that the procedure to recognize revenue from billed services agrees with ICE's accounting policy.

The key audit matter	How our audit addressed the key audit matter
2. Operating assets:	
During 2016, ICE adopted the component accounting policy by restructuring its operating assets subledger and identifying different components and useful lives. This process entailed judgments and technical estimates to determine the assets' useful lives and values.	• obtaining and analyzing the methodology, assumptions, and estimates established to segregate operating assets into components; • for a sample, obtaining documentation supporting the segregation and reallocation of the cost and accumulated depreciation by components and the consistent application of the methodology used by asset; • based on the aforementioned sample, establishing that the acquisition date assigned to the component agreed with the acquisition date of the asset from which the component is derived; • for a sample of assets, reviewing supporting evidence for the change in useful lives and calculated depreciation expense; and • based on the updated subledger derived from that segregation by components, selecting a sample of assets to verify their physical existence.
3. Employee benefits:	
We considered this area to be a key audit matter mainly due to the judgment involved in determining actuarial and financial assumptions used to measure the liabilities related to vacations and severance benefits, and its impact on the presentation of ICE's consolidated financial statements.	In this area, our audit procedures included: • analyzing and evaluating the appropriateness of actuarial and financial assumptions used to determine the obligation associated with the post-employment benefits identified in the actuarial study performed by ICE Group, including the comparison of key assumptions with external data. The foregoing was performed with the support of our actuarial experts; • performing audit testing to establish the completeness, accuracy, and sufficiency of the databases used by the actuaries hired by ICE Group to measure the aforementioned benefits; and;

The key audit matter	How our audit addressed the key audit matter
	• obtaining the accounting criteria issued and adopted by ICE in 2016 for the valuation of employee benefits, as well as the accounting treatment of the economic benefits evidenced by the aforementioned actuarial studies in view of ICE Group's accounting policies; and analyzing the adequacy of the disclosures included in the notes to the consolidated financial statements on the sensitivity analysis of certain assumptions used in the actuarial studies.
4. Alignment of the accounting policies of the subsidiaries:	
The financial statements of ICE's subsidiaries are issued under an accounting basis different from that of the parent company's. Consequently, to perform the consolidation process of ICE Group's financial statements, it is necessary to perform a process to align the accounting policies of those subsidiaries with those of the parent company. This alignment process is considered a key audit matter.	• determining and evaluating the process used by management for the alignment of the accounting policies of ICE Group's entities prior to the consolidation process; • obtaining and analyzing the significant alignment items which cause important adjustments in that process; • analyzing the completeness and accuracy of the database used for that alignment process, reconciling them to the financial figures of the entities subject to the alignment; • identifying situations where the alignment could not be performed and determined their impact on the consolidated financial statements; and • assessing the controls of the reporting process related to the alignment process.

Key Audit Matter	How our audit addressed the key audit matter
5. Provisions and contingent liabilities	
We consider this area to be a key audit matter mainly because the elements considered for the measurement, booking, and disclosure of a contingent liability involve a significant level of judgment and the uncertainty of the sources of information used for that measurement.	• obtaining information regarding the control process designed for the determination, compilation, analysis, and follow-up of legal proceedings or lawsuits against ICE Group; • obtaining details of all of the legal proceedings as of December 31, 2016, identifying the assigned probability and its impact on the consolidated financial statements; • establishing the adjustments identified and measured by management, analyzing the appropriateness of the time of booking in light of the timing of the facts that support it; • discussing the open or ongoing legal proceedings with the corresponding professionals of the Corporate Legal Division, analyzing and questioning the elements used to determine the probability of occurrence assigned to those cases; performing the foregoing on a selected sample of current cases or lawsuits; • analyzing the provisioned amount for contingent liabilities derived from lawsuits in process, and determined their sufficiency in light of the analysis performed by management regarding the probability of an unfavorable outcome and the policy included in ICE's Accounting Policy Manual; • The estimates of the provisions is subject to inherent uncertainty; accordingly, the analysis to determine a reasonable range for provisioning is made within the context of that uncertainty.

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

Management is responsible for the preparation of the consolidated financial statements in accordance with the accounting principles accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica, 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 ICE Group'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 ICE Group's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ICE Group'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 ICE Group'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 ICE Group'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 ICE Group to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within ICE Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the ICE Group's 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, related safeguards.

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.

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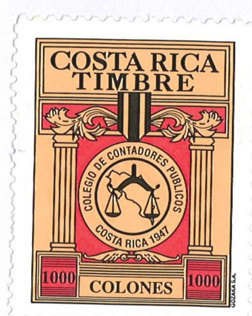

May 15, 2017

San José, Costa Rica
Armin Campos Villalobos
Member No. 663
Policy No. 0116-FIG-7
Expires 09/30/2017

¢1,000 tax stamp paid pursuant to Law No. 6663
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INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES
(San José, Costa Rica)

Consolidated Balance Sheet
(In millions of colones)

As of December 31, 2016
(With corresponding figures for 2015)

Assets	Notes		2016	2015 (Restated)*
Property, machinery and equipment:				
Operating assets, net	4	¢	4,290,768	3,673,994
Construction work in progress	5		342,336	404,956
Materials in transit for investment	5		50,974	19,170
Inventory for investment projects	5		118,648	125,523
Total property, machinery and equipment, net			**4,802,726**	**4,223,643**
Long-term assets:				
Long-term investments	6		113,688	207,012
Notes receivable	10		8,242	8,325
Total long-term assets			**121,930**	**215,337**
Current assets:				
Cash and cash equivalents	7		174,224	181,220
Temporary investments, net	8		112,639	106,525
Restricted funds	9		28,518	11,333
Receivables, net	11		125,773	123,158
Notes receivable	10		6,598	2,276
Operating inventory, net	12		63,683	49,798
Prepaid expenses	13		73,025	92,762
Total current assets			**584,460**	**567,072**
Other assets:				
Non-operating assets, net	16		-	47,342
Service agreements	14		1,215	33,812
Project design and execution	15		92,952	92,994
Technical service centers			66	131
Amortizable items, net			-	231
Intangible assets, net	17		52,560	63,886
Securities received as guaranty deposits			6,042	7,292
Valuation of financial instruments			-	2,901
Guarantee and Savings Fund (restricted fund)	18		208,826	214,567
Transfer to Guarantee and Savings Fund			2,493	-
Operating inventory			32,719	30,584
Total other assets			**396,873**	**493,740**
Total assets		¢	**5,905,989**	**5,499,792**

* See note 27.

The notes are an integral part of these consolidated financial statements.

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

Consolidated Balance Sheet
(In millions of colones)

As of December 31, 2016
(With corresponding figures for 2015)

Liabilities and Equity	Notes		2016	2015 (Restated)*
Long-term liabilities:				
Securities payable	19	¢	1,123,489	1,104,665
Loans payable	20		869,919	795,373
Obligations derived from credit			157	153
Finance lease obligations	21		494,750	25,811
Security deposits			58,681	56,407
Accounts payable	22		9,241	7,398
Prepaid income	23		6,071	6,378
Provision for severance benefits	25		106,829	122,918
Legal provisions	26		232	149
Total long-term liabilities			**2,669,369**	**2,119,252**
Short-term liabilities:				
Securities payable	19		25,000	26,891
Loans payable	20		91,351	90,826
Finance lease obligations	21		14,618	735
Accounts payable	22		131,904	112,669
Accrued finance expenses payable			22,788	25,268
Prepaid income	23		16,198	16,759
Deposits from individuals			7,503	5,322
Provision for severance benefits	25		26,650	21,740
Legal provisions	26		2,476	3,586
Accrued expenses for employer obligations	24		55,367	60,264
Total short-term liabilities			**393,855**	**364,060**
Other liabilities:				
Valuation of financial instruments			6,324	15,130
Accounts payable			2,016	1,988
Guarantee and Savings Fund (restricted fund)	18		208,826	214,567
Total other liabilities			**217,166**	**231,685**
Total liabilities			**3,280,390**	**2,714,997**
Equity:				
Paid-in capital			156	156
Development reserve			2,514,192	1,582,926
Revaluation surplus			-	1,083,980
Actuarial gains and losses			(22,187)	(10,389)
Result of valuation of financial instruments			(7,412)	2,943
Legal reserve			11,979	10,142
Project development reserve			71	71
Forest development reserve			-	548
Restricted earnings			62,380	62,380
Retained earnings			64,037	47,146
Minority interest			2,383	4,892
Net equity and minority interest			**2,625,599**	**2,784,795**
Total liabilities plus equity		¢	**5,905,989**	**5,499,792**
Memoranda accounts	28	¢	**204,830**	**339,579**

* See note 27.

The notes are an integral part of these consolidated financial statements.

Francisco Garro Molina Corporate Administration and Finance Manager	Jesús Orozco Delgado Head of Corporate Finance	Lizbeth Hernández Castillo Accounting Process Coordinator

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

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

For the year ended December 31, 2016
(With corresponding figures for 2015)

	Notes		2016	2015 (Restated)*
Operating income:				
Electricity services	29	¢	804,015	745,699
Telecommunications services	29		576,503	578,907
Supplemental services	29		-	1,785
Government services	29		12	89
Total operating income			**1,380,530**	**1,326,480**
Operating costs:				
Operation and maintenance	30		238,885	252,744
Operation and maintenance of leased equipment	31		89,859	97,206
Depreciation of operating assets			271,689	276,771
Supplemental services and purchases	32		180,215	152,772
Production management			83,828	87,154
Total operating costs			**864,476**	**866,647**
Gross surplus			**516,054**	**459,833**
Operating expenses:				
Administrative	33		106,852	106,194
Marketing	34		235,586	282,720
Preinvestment studies	36		5,489	4,919
Preliminary studies	35		24,034	26,049
Other	37		9,570	12,285
Total operating expenses			**381,531**	**432,167**
Operating surplus			**134,523**	**27,666**
Other income:				
Finance income			29,421	32,882
Foreign exchange differences			8,498	21,074
Income from investments in other companies			359	326
Other income			52,388	94,092
Total other income	38		**90,666**	**148,374**
Other expenses:				
Interest			120,792	100,422
Commissions			2,047	10,837
Foreign exchange differences			59,411	5,388
Other expenses			22,451	61,406
Total other expenses	38		**204,701**	**178,053**
Surplus (deficit) before income tax and minority interest			**20,488**	**(2,013)**
Tax and minority interest:				
Income tax			(1,306)	(519)
Minority interest 1.4%			251	62
Net surplus (deficit)		¢	**19,433**	**(2,470)**

* See note 27.

The notes are an integral part of these consolidated financial statements.

Francisco Garro Molina
Corporate Administration and Finance Manager

Jesús Orozco Delgado
Head of Corporate Finance

Lizbeth Hernández Castillo
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, 2016
(With corresponding figures for 2015)

	Note	Paid-in capital	Revaluation surplus	Result of valuation of financial instruments	Development reserve	Legal reserve	Project development reserve	Forest development reserve	Restricted earnings	Retained earnings	Minority interest	Actuarial gain (loss)	Total equity, net
Balance as of January 1, 2015, as previously reported		₡ 156	1,201,182	(6,556)	1,499,000	9,291	71	989	62,380	68,782	5,058	-	2,840,353
Effect of adjustments for correcction of errors and changes in accounting policies from prior years:													
Effect for correction of errors	27	-	-	5,957	(46,806)	-	-	-	-	-	-	-	(40,849)
Effect for changes in accounting policies	27	-	-	-	23,121	-	-	-	-	(1,987)	-	-	21,134
Subtotal					(23,685)								2,820,638
Prior period adjustments		-	-	-	2,993	-	-	-	-	-	-	-	2,993
Balance as of January 1, 2015, restated		156	1,201,182	(599)	1,478,308	9,291	71	989	62,380	66,795	5,058	-	2,823,631
Effect of adjustments for correcction of errors and changes in accounting policies	27	-	-	549	10,136	-	-	-	-	(1,188)	-	-	9,498
Actuarial loss - severance benefits and vacation		-	-	-	-	-	-	-	-	-	-	(10,389)	(10,389)
Asset revaluation for the year		-	(31,562)	-	-	-	-	-	-	-	-	-	(31,562)
Effect of elimination for prior year Government services		-	-	-	3,739	-	-	-	-	-	-	-	3,739
Prior period adjustments		-	14	-	408	-	-	(526)	-	1,645	-	-	1,541
Appropriation to legal reserve		-	-	-	-	851	-	-	-	-	-	-	851
Adjustment for actuarial rate review on severance benefits		-	-	-	-	-	-	-	-	(886)	-	-	(886)
Effect of appropriation to and realization of forest development		-	-	-	-	-	-	85	-	-	-	-	85
Net surplus (deficit) before allocation to minority interest		-	-	-	17,377	-	-	-	-	(28,859)	-	-	(11,482)
Realization of asset revaluation reserve		-	(82,647)	-	72,959	-	-	-	-	9,688	-	-	-
Result of valuation of financial instruments:													
Derivative financial instruments		-	-	(549)	-	-	-	-	-	-	-	-	(549)
Investments		-	-	3,542	-	-	-	-	-	-	-	-	3,542
Retirement of assets for the year		-	(3,222)	-	-	-	-	-	-	-	-	-	(3,222)
Appropriation of minority interest		-	215	-	-	-	-	-	-	(49)	(166)	-	-
Balance as of December 31, 2015, restated		₡ 156	1,083,980	2,943	1,582,926	10,142	71	548	62,380	47,146	4,892	(10,389)	2,784,795
Balance as of December 31, 2015, as previously reported		₡ 156	1,083,980	(3,563)	1,596,476	10,142	71	548	62,380	52,255	4,964	-	2,807,409
Effect of adjustments for correcction of errors and changes in prior year accounting policies:													
Accumulated effect of changes in accounting policies and adjustments for	27	-	-	5,957	(23,686)	-	-	-	-	(1,987)	-	-	(19,716)
prior year corrections	27	-	-	549	10,136	-	-	-	-	(3,123)	(72)	(10,389)	(2,898)
Balance as of December 31, 2015, restated		156	1,083,980	2,943	1,582,926	10,142	71	548	62,380	47,146	4,892	(10,389)	2,784,795
Effect of changes in eliminations for reciprocal transactions		-	-	-	3,478	-	-	-	-	-	-	-	3,478
Actuarial loss - severance benefits and vacation		-	-	-	-	-	-	-	-	-	-	(11,799)	(11,799)
Transfer of revaluation surplus due to application of adjusted cost and reversal due to alignment	4	-	(1,086,305)	-	919,470	-	-	-	-	5,229	-	-	(161,606)
Appropriation to legal reserve		-	-	-	-	1,837	-	-	-	-	-	-	1,837
Effect of appropriation to and realization of forest development		-	-	-	-	-	-	(548)	-	548	-	-	-
Net surplus before allocation to minority interest		-	-	-	8,318	-	-	-	-	10,864	-	-	19,182
Result of valuation of financial instruments:													
Derivative financial instruments		-	-	(9,446)	-	-	-	-	-	-	-	-	(9,446)
Investments		-	-	(909)	-	-	-	-	-	-	-	-	(909)
Appropriation of minority interest		-	2,325	-	-	-	-	-	-	251	(2,509)	-	67
Balance as of December 31, 2016		₡ 156	-	(7,412)	2,514,192	11,979	71	-	62,380	64,037	2,383	(22,187)	2,625,599

The notes are an integral part of these consolidated financial statements.

Francisco Garro Molina
Corporate Administration and Finance Manager

Jesús Orozco Delgado
Head of Corporate Finance

Lizbeth Fernández Castillo
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, 2016
(With corresponding figures for 2015)

	Note		2016	2015 *(Restated)**
Cash flows for:				
Operating activities:				
Surplus (deficit) for the year		¢	19,433	(2,470)
Adjustments for:				
Depreciation			303,181	300,647
Legal provisions			19,923	24,283
Statutory Christmas bonus			17,508	18,598
Back-to-school bonus			17,631	18,061
Accrued vacation			21,361	17,840
Provision for contingent liabilities			255	1,383
Allowance for doubtful accounts			9,764	16,866
Allowance for valuation of inventory			792	34,055
Expense on disposal of assets			23,256	22,732
Absorption of amortizable and intangible items			16,945	11,713
Foreign exchange differences			57,226	(13,244)
Valuation of financial instruments			(16,259)	(1,503)
			471,583	451,431
Changes in:				
Loans and accounts receivable			(15,993)	13,459
Operating inventory			(14,677)	(19,834)
Other assets			48,630	8,765
Accounts payable			21,106	30,126
Security deposits			2,274	(1,094)
Other liabilities			(104,046)	(91,490)
Net cash from operating activites			428,310	388,893
Cash from investing activities:				
Decrease (increase) in long-term investments			93,324	(152,154)
Additions to property, machinery and equipment			(1,016,291)	(221,833)
(Increase) decrease in other assets			(23,934)	1,699
Increase in temporary investments			(6,113)	(42,232)
Net cash used in investing activities			(953,014)	(414,520)
Cash flows from financing activities:				
Increase in securities payable			15,500	12,068
Amortization of securities payable			(27,597)	(703)
Increase in loans payable			156,984	183,533
Amortization of loans payable			(110,109)	(126,597)
Increase (decrease) in obligations derived from credit			5	(1)
Increase in finance leases			490,511	5,924
Amortization of finance leases			(7,586)	(631)
Net cash from financing activities			517,708	73,593
Net (decrease) increase in cash and cash equivalents			(6,996)	47,966
Cash and cash equivalents at beginning of year			181,220	133,254
Cash and cash equivalents at end of year	7	¢	174,224	181,220

* See note 27.

The notes are an integral part of these consolidated financial statements.

Francisco Garro Molina
Corporate Administration and Finance Manager

Jesús Orozco Delgado
Head of Corporate Finance

Lizbeth Hernández Castillo
Accounting Process Coordinator

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

Instituto Costarricense de Electricidad (ICE) and subsidiaries ("ICE Group") 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. The address of its registered office is Sabana Norte, Distrito Mata Redonda, San José, Costa Rica.

ICE Group is a group of State-owned companies, composed of ICE (parent company and ultimate controlling entity) and its wholly-owned operating subsidiaries, Compañía Nacional de Fuerza y Luz, S.A. (CNFL), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA), and Cable Visión de Costa Rica, S.A. (CVCRSA), all organized under the laws of the Republic of Costa Rica. ICE is also sole owner of other companies that do not have operations as of December 31, 2016.

ICE's primary activity is the development of electric power-producing sources and the supply of electricity services, with the exclusive right to generate, transmit, and distribute electricity in Costa Rica, with limited exceptions to private companies, municipal entities, and rural cooperatives. Also, ICE holds a concession to develop and promote telecommunications services in Costa Rica, offering a wide range of telecommunications services for individuals, homes, and companies. The services offered include fixed and mobile services, both for voice and for data. Fixed services include traditional landline services, public phones, internet access, and television. Mobile services include prepaid and postpaid voice and data services. The service offer also includes value-added services and content, security and backup, interconnection of telephone networks, and submarine connections. Mobile telephone services (prepaid and postpaid voice and data), fixed telephone services (includes dedicated lines), internet access, and public and international telephone services are regulated by Superintendencia de Telecomunicaciones (SUTEL) [Superintendency of Telecommunications].

(Continued)

The main activities of the subsidiaries are as follows:

- *Compañía Nacional de Fuerza y Luz, S.A.*

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. CNFL has issued debt securities, expressed in local currency, and is therefore 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) [Superintendency General of Securities].

- *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, information services, data center, 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 any officers or employees because ICE Group provides its accounting and administrative services.

- *Cable Visión de Costa Rica, S.A.*

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

The activities of ICE and its subsidiaries are regulated by Contraloría General de la República (CGR) [Comptroller General of the Republic], SUGEVAL, Bolsa Nacional de Valores de Costa Rica, S.A. [Costa Rican National Stock Exchange], the Securities Market Regulatory Law, Autoridad Reguladora de los Servicios Públicos (ARESEP) [Costa Rican Public Service Regulatory Authority] (including the Intendencia de Energía, [Energy Management Office]), SUTEL, and Superintendencia de Pensiones (SUPEN) [Superintendency of Pensions].

Note 2. Basis of accounting

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles included in ICE's Accounting Policy Manual and accounting criteria issued, accepted by the General Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica, lead agency of the National Accounting Subsystem.

The above set of rules considers the conceptual framework included in the Accounting Principles applicable to the Costa Rican Public Sector, in effect as of December 31, 2016. According to the decrees and the provisions issued in the General Directorate of National Accounting of the Ministry of Finance, ICE's financial statements for 2023 shall be issued in conformity with International Financial Reporting Standards (IFRS). Consequently, ICE has been performing the gradual adoption of such standards, incorporating the changes implemented in the Accounting Policy Manual and issuing accounting criteria, which after their issue become part of ICE's accounting standards in effect, as these are binding regulations as per the acceptance of the General Directorate of National Accounting of the Ministry of Finance.

The basis of accounting of the subsidiaries is IFRSs. Consequently, for purposes of the consolidated financial statements, the accounting basis of the subsidiaries has been aligned in accordance with the parent company's accounting basis.

The consolidated financial statements and notes thereto were authorized for issue by ICE Group's management on May 15, 2017.

(Continued)

(b) Basis of measurement

The basis of measurement used to record transactions is historical cost, in conformity with Executive Order No. 34460-H of February 14, 2008. However, as of the date of issue of the accompanying consolidated financial statements, some items are valued using other basis of measurement, as detailed in ICE's Accounting Policy Manual, such as the fair value of derivative financial instruments and investments and amortized cost of debt.

(c) Functional and presentation currency

The accounting records of ICE Group and the consolidated financial statements and notes thereto are expressed in Costa Rican colones (¢), monetary unit of the Republic of Costa Rica and ICE Group's functional currency.

All financial information contained herein is presented in millions of colones, except as otherwise indicated in certain notes to the consolidated financial statements that specify the currency of origin of the transactions.

(d) Use of judgments and estimates

In preparing these accompanying consolidated financial statements in conformity with ICE's Accounting Policy Manual, management has made judgments, estimates, and assumptions that affect the application of ICE Group'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. Changes in estimates follow that indicated in note 3(v).

(i) Judgments

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

- Note 40 – Financial risk management
- Note 3 (l) – Lease classification.

(ii) *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2017 is included in the following notes:

- Note 11 – Allowance for doubtful accounts
- Note 12 – Allowance for obsolete inventory
- Note 26 – Recognition and measurement of provisions and contingencies – key assumptions about the likelihood and magnitude of an outflow of economic resources.
- Note 25 – Tests on measurement of defined benefit obligations – key actuarial assumptions.

(e) Changes in accounting policies and new accounting transactions

As indicated in note 2 “Basis of Accounting”, the consolidated financial statements of ICE Group are prepared in accordance with the accounting policies included in the Accounting Policy Manual and accounting criteria issued. ICE follows the practice of making changes to these accounting policies, with the approval of the General Directorate of National Accounting of the Ministry of Finance, to adjust them to the best accounting practices. Some of these changes were included in the version of this manual in effect as of December 31, 2016; other changes were documented through the issue of accounting criteria, in conformity with that established in ICE’s accounting policies and accepted by the General Directorate of National Accounting of the Ministry of Finance, which represent binding accounting regulations on that manual. Accounting criteria not included in the current version, but pertaining to the current period, they are included in the following version of ICE’s Accounting Policy Manual. In this regard, the Accounting Policy Manual reads as follows:

“*ICE’s Accounting Policies shall be issued annually, considering the changes in the ‘Accounting Criteria’ made official on November of each year. Consequently, topics that are not covered, due to new transactions or changes in existing transactions, pertaining to the current accounting period, shall be formally regulated by the criteria issued as of December of each year, and until the end of the annual external audit process.*”

The changes made to accounting policies during 2016 are as follows:

(i) *Accounting policies, changes in accounting estimates and misstatements*

Until December 31, 2015, the policy used by ICE was as follows:

- *Changes in accounting policies*: the effects of changes in accounting policies were applied to the opening balances of equity accounts, except to the extent that it was impracticable to determine either the effects of the change in each specific period or the cumulative effect. Impracticability had to be duly supported by reliable arguments.

- *Changes in estimates:* changes in accounting estimates resulting from new information or events had to be applied to profit or loss for the period and to any future periods affected.

- *Correction of misstatements:* Misstatements in balances or transactions had to be corrected by adjusting the opening balances of the equity accounts, with adjustments greater than or equal to ¢3,000 included retrospectively. Adjustments with the same justification that add up to a total of ¢3,000 are also included. Adjustments to correct errors that do not meet the above criteria were presented as movements for the period in the consolidated statement of changes in equity for the most recent period; consequently, their effect was not booked retrospectively in prior-period consolidated financial statements.

In 2016 and thereafter, the following changes are incorporated and effective:

- *Changes in accounting policies*: When a change in an accounting policy is applied retrospectively, the opening balances of each equity account shall be adjusted for the oldest period presented, disclosing information about the other comparative amounts for each prior period presented. Retrospective application shall be made to prior periods and the comparative information adjusted, unless it is impracticable to determine the effects of changes in prior periods or the cumulative effect.

- *Changes in estimates:* similar to prior years, changes in accounting estimates are those resulting from changes in events or circumstances on which the estimate is based, such as new information obtained, or more experience.

The effect of the change is recognized in profit or loss for the period and to any future periods affected.

(Continued)

- *Correction of misstatements:* misstatements determined in the current period that correspond to the same period shall be corrected before the financial statements are authorized for issue. Material misstatements originating in prior periods shall be corrected retrospectively in the financial statements immediately following their detection, restating the comparative information for the period or prior periods in which the misstatement occurred, as well as the opening balance of assets, liabilities, and equity, for the oldest comparative period presented, in the event that the misstatement originated in a prior period. When it is impracticable to determine the cumulative effect of a prior period misstatement, the comparative information shall be restated, correcting the error prospectively from the date on which it is possible to do so.

Any variation that this new accounting policy might evidence in respect of the accounting policy effective until December 31, 2015 entailed no changes in the accounting treatment given to the matters established as of that date under the terms of the previous policy.

(ii) <u>*Operating assets and other operating assets*</u>

<u>*Recognition and measurement*</u>

As reported in prior periods, "operating assets" are tangible assets used in the production and delivery of electricity and telecommunication services that are expected to be used for more than one accounting period. "Other operating assets" are assets used in administrative or operating activities that are also expected to be used for more than one accounting period. Until December 31, 2015, such assets were carried at acquisition or construction cost (plus any other direct cost necessary to bring the assets to the location and condition for its use). In the specific case of the operating assets of the Electricity Segment and the land and buildings of the Telecom Segment, their valuation includes, in addition to such cost, the effect of the adjustment from the annual revaluation performed using an index determined using a formula that considers the U.S. external price index (Bureau of Labor Cost Trend) and the Costa Rican consumer price index, depending on whether the purchases are made locally or abroad, and the prior and current year exchange rates.

Starting 2016, ICE adopted the term "adjusted cost" as a substitute for the historical cost of the assets plus the revaluation adjustment. Furthermore, it added the accumulated depreciation on cost plus the accumulated depreciation on the revaluation. Accordingly, starting 2016, the valuation and booking of operating assets and other operating assets subject to rate regulation and included in ICE's accounting records is denominated "adjusted cost", composed of the historical cost plus revaluation adjustments made until December 31, 2015.

This new policy aims to recognize the amount derived from the sum of the value of the cost and the revaluation of items of property, plant, and equipment (operating assets and other operating assets both owned by ICE and under finance leases) as the new cost.

(iii) *<u>Operating assets and other operating assets under finance leases</u>*

Recognition and measurement

"Operating assets under finance leases" are tangible assets contractually defined as finance leases, subscribed by ICE, and used in the production and delivery of electricity and telecommunications services. "Other operating assets under finance leases" are used in administrative or operating activities that are expected to be used for more than one accounting period. Such assets, which are also used in operations subject to rate regulation, had been previously booked in conformity with policy 3.b. Subsequently, as of the second accounting period, those assets were revalued using the revaluation indexes determined using a formula that considers the U.S. external price index (Bureau of Labor Cost Trend) and Costa Rican consumer price index, depending on whether the purchases are made locally or abroad, and the prior and current year exchange rates.

In 2016, as in the case of operating assets and other operating assets, ICE adopted the term "adjusted cost" to present the book value of those assets, which comprises the historical cost plus the revaluation adjustment. This entails adding the accumulated depreciation on the book value plus depreciation on the revaluation.

The application of this new adjusted cost policy for operating assets and other operating assets mentioned in items ii) and iii) above has the objective of recognizing the amount derived from the sum of the cost and the revaluation of those asset items as the new cost. This change in the identification of the value of the aforementioned assets was implemented starting 2016, without modifying the presentation until December 31, 2015 on the book value of such assets, given that the retrospective application on prior periods was considered impracticable. Thus, after this change, additions to operating assets are recorded at acquisition or construction cost, if and only if it is probable that the future economic benefits associated with such items will flow to the company, and cost can be determined reliably.

With the adoption of the adjusted cost as the new cost for the aforementioned assets, ICE reversed the balance of the revaluation reserve considered realizable, transferring it to the Development reserve (see note 4).

Regarding the subsidiary CNFL, which has a revaluation surplus derived from the update of the value of items of property, machinery and equipment through an indexation methodology based on price indexes, the balance of that surplus was reversed in the 2016 consolidated financial statements. This reversal was made due to the adoption of the adjusted cost policy by the parent company, and since it corresponds to a revaluation made under a methodology not accepted by IFRSs, which is the accounting basis used by that subsidiary.

(iv) *Operating assets - components and useful lives*

Until December 31, 2015, the accounting policy related to the booking of ICE's operating assets and operating assets under finance leases, both of the Electricity and Telecom Segments, and that of the subsidiaries, did not include component accounting, which is mainly aimed at identifying within operating assets parts of an item of property, machinery, and equipment with a cost that is individually significant in relation to the total cost of the item, thus to be depreciated separately. Consequently, the established depreciation policy did not consider the useful lives based on component accounting.

In 2016, ICE began an exhaustive study, along with external advisors, aimed at implementing component accounting. The implementation of this componentization used methodologies for the valuation of each type of asset or component identified, seeking to maintain the reconciliation with the total value of the assets from which they derived. The subsidiary CNFL was not included in this study or in the implementation of component accounting.

As a result of the implementation of component accounting, the subledgers of ICE's operating assets were restructured starting 2016, along with changes applied to useful lives, due to the characteristics of each component identified. In addition, assets with similar characteristics and different useful lives were identified, which generated adjustments in depreciation and accumulated depreciation. The effects of the implementation of component accounting were included prospectively in the financial statements starting 2016, and were not applied retrospectively as it was considered impracticable. Along with the adoption of component accounting, an accounting policy was adopted for the recognition of restoration, dismantling and similar obligations, and due to the immaterial effect on current possible obligations, no effects were recognized in the consolidated financial statements.

(v) *Impairment of the value of assets*

Until December 31, 2015, ICE followed the accounting practice of recognizing only the physical impairment of its assets, caused by force majeure or other physical damage of the assets. Such impairment was booked directly in the consolidated statement of income and expenses.

Starting 2016, as a result of its goal of incorporating improvements to its accounting policies, ICE decided to implement to a large extent the accounting requirements and methodology established in IAS 36 *Impairment of Assets*, to determine the recoverable amount of assets that may have indications of impairment, using the value in use as sole reference. To this end, ICE determined two separate Cash Generating Units (CGUs), namely the Electricity Segment and the Telecom Segment. The foregoing takes into consideration independent cash flows from each generating unit and the manner in which management monitors and makes decisions on the continuity or final disposal of assets and operations. Along with this adoption, ICE included the policy of performing annual impairment testing on intangible assets with indefinite useful lives, independently of the existence of any indication of impairment, using recent calculations on the recoverable amount of the CGUs determined to test impairment of such intangible asset.

(vi) *Provisions, contingent liabilities and contingent assets*

Prior to 2016, ICE followed the practice of booking a provision for contingent liabilities in order to cover possible losses derived from general and tax-related legal proceedings managed by its Corporate Legal Department. The conditions and amount of the provision were determined in accordance with the “Guidelines for Litigation Provisions”, which considered the expert opinion of ICE’s Corporate Legal Department. According to the guidelines, a provision was made for litigations for which the estimate, amount, or unfavorable ruling amounts to ¢500 or more, except for notices of deficiency issued by the Tax Authorities, which should be fully provisioned regardless of the amount. However, if according to the expert opinion of the legal counsel an outflow of funds from ICE Group was unlikely in respect of such tax proceedings, no provision was recorded.

Starting in 2016, ICE made changes to that accounting policy, emphasizing specifically those provisions related to judicial and tax proceedings. According to those changes, ICE recognizes a provision if and when the following conditions occur: a) it has a present obligation as a result of a past event, b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and c) a reliable estimate can be made of the amount of the obligation. The provisioned amount shall be the best estimate of the consideration required to settle the present obligation, measured using the estimated cash flow to settle the present obligation. In determining the probability of an outflow of resources, the following criteria will be used:

- Probable (probability of occurrence higher than 50%)
- Possible (probability of occurrence less than 50% and higher than 10%)
- Remote (probability of occurrence between 5% and 10% or less).

Thus, a provision is booked for lawsuits if the probability of existence of an obligation is greater than or equal to 50%. Otherwise a provision is not booked.

This change in the booking of provisions for judicial or tax proceedings was applied retrospectively based on the available information and managed by the Corporate Legal Division.

(vii) *Derivative instruments and hedging activities*

Until December 31, 2015, ICE followed the accounting policy of booking as valuation of derivative financial instruments the positive value of discounted cash flows of the financial instrument, in the asset section of the balance sheet. The negative value of the discounted cash flows of financial instruments was booked as a liability. The value changes in response to changes in the underlying asset. On the other hand, for qualifying hedging instruments, the effects of changes in their valuation was classified in equity or profit or loss for the period based on an evaluation of their effectiveness. For fair value hedges, the effects of valuations are recognized in profit or loss for the year. The effect of the valuation of derivative financial instruments that do not meet the criteria for hedge accounting is booked as part of finance income in profit or loss. Lastly, for hedges defined as at fair value, this policy does not contemplate the update of the hedged liability at fair value.

During 2016, ICE included the following changes in the management of derivatives:

- Derivatives acquired before 2016 are adjusted for measurement at fair value, recognizing gains or losses derived from their measurement in profit or loss for the year. Derivatives acquired during 2016 are booked using hedge accounting.

- Based on the foregoing, and taking as starting point that performed with regard to the derivatives acquired during 2016, the policy is adopted of booking derivative financial instruments using hedge accounting. ICE's hedging relationships are fair value hedges and cash flow hedges.

- In the case of fair value hedges, gains or losses arising from the fair value measurement of the hedging instrument, according to the agreed conditions and market conditions, are recognized in profit or loss. Gains or losses on the hedged item that are attributable to the hedged risk will be adjusted in the carrying amount of the hedged item and recognized in profit or loss.

- Regarding cash flow hedges, gains or losses on hedging instruments determined to be effective will be recognized in equity ("Result of valuation of financial instruments" account), with the offsetting item in the liability subaccount. The ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss for the year.

(viii) *Employee benefits*

Until December 31, 2015, ICE followed the practice of booking a provision to cover the following employee benefits:

1. Severance benefits:

For permanent employees:

To address the payment of this legally-established benefit, ICE booked a provision calculated over the employees' monthly pretax compensation. This calculation, which entailed the booking of an expense, was made based on 3.5% of the employee's monthly pretax compensation. As of December 31, 2015, in order to improve the calculation of this provision, a methodology was adopted that was more related to the employee's seniority. Consequently, it was determined that for employees with 10 or more years of service, the amount of the severance benefits obligation with each employee shall be calculated by multiplying the maximum amount of monthly salaries (24 salaries) to which an employee would have rights, according to the Personnel Statute in effect, by the monthly salary determined through a projection, from the balance sheet date until the date when the employee reaches the retirement age (60 years old for women, 62 years old for men), applying the estimated annual growth percentage for the projection period, and discounting the rate represented by the current value of future severance payments to be made. The foregoing led to an adjustment in the provision amount in December 2015. However, and in view of the decision to perform an actuarial study with the support of an independent appraiser to determine the sufficiency of the accumulated provision to address this obligation, during 2016 and prior to that period close, ICE continued updating the value of that provision based on the aforementioned 3.5% applied to the employee's pretax compensation.

Regarding this benefit, ICE follows the policy of transferring on a monthly basis to the Guarantee and Savings Fund-Severance Fund the amount resulting from applying the 3.5% to the employee’s pretax compensation. Returns generated from the management of the amounts contributed and established based on that 3.5%, those related to the 2.5% are transferred to the Supplemental Pension System, while those related to the remaining 1% are capitalized to the same Fund, to strengthen it.

For project employees:

Project employees are hired to execute projects developed by ICE and are terminated once the work is completed. The provision calculated for these employees corresponds to 9% of the monthly pretax compensation. This provision generates the booking of an expense.

2. <u>Vacation:</u>

ICE booked 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 was calculated as 7.5% of each employee’s pretax compensation.

This provision generates the booking of an expense.

3. <u>Supplemental Pension System:</u>

The Supplemental Pension System is a benefit aimed at contributing to the employee’s welfare, granting a pension additional to any other regime of the public sector. This benefit has been financed through the monthly contribution made by ICE for an amount equivalent to 4.5% of the employee’s monthly pretax compensation, and an employee contribution equivalent to 1% of his monthly salary. In ICE’s case, the contribution amount is booked as an expense at the time of recognition. Funds destined toward that benefit are transferred to and managed by the Guarantee and Savings Fund-Supplemental Pension System. This benefit is granted to the employee upon retirement from ICE and until his death.

Returns generated from the management of the funds received for this purpose at the end of each accounting period are capitalized proportionally, increasing the value of the employer and employee contributions. This fund is regulated by SUPEN (see note 18).

4. <u>Guarantee and Savings Fund:</u>

The Guarantee and Savings Fund was created with the purpose of providing support to the employee to resolve housing and other needs. This fund receives and manages contributions made by ICE on a monthly basis equivalent to 5% of the employees' pretax compensation (6% up to June 2016), and an employee contribution equivalent to 5% of the pretax compensation. Contributions made by ICE are accounted for as an expense. This fun is an independent vehicle, aimed at granting mortgage and fiduciary loans, among other services, to address those needs and to generate earnings on the funds received. Earnings from this activity are distributed at the end of the period, increasing employer and employee contribution amounts at the proportion determined by the Managing Board of such fund. After 20 years of service with ICE, employees that resign with no employer's liability have the right to withdraw the balance of the individual savings account and ICE's contributions (see note 18).

5. <u>Mutual Fund:</u>

This fund aims to hedge loans by employees and former employees (pensioned, disabled, or dead), obtained through the Guarantee and Savings Fund. In the event of death, both mortgage and personal loans are settled, and in the event of workplace or other types of accidents mortgage debt is settled. The activity of this fund is financed through premiums established on mortgage and personal loans equivalent to 0.50%, 0.60%, and 0.70% on fiduciary loan amounts, and 0.90%, 1.00%, and 1.50% on mortgage operations for 2015. These percentages have varied between 0.60% and 0.80% for fiduciary loans and 1% for mortgages at the mentioned percentages. In the event that funds obtained are insufficient to cover the benefit, ICE's Guarantee and Savings Fund shall cover the difference in first instance; otherwise, it shall correspond to ICE.

Funds destined by ICE for the benefits contemplated in the Supplemental Pension System, Guarantee and Savings Fund, Mutual Fund, and Severance Benefits Fund are transferred to and managed by the "Guarantee and Savings Fund" which is a separate vehicle (created in conformity with article 17 of Law No. 449 dated April 8, 1949, Law No. 3625 of December 16, 1965, and article 2 of the "Reglamento de Seguro, Invalidez y Muerte" [Insurance, Disability, and Death Regulations] of the Costa Rican Social Security Administration (CCSS), which does not have its own legal capacity, therefore it uses ICE's legal corporate identification for all purposes. The Guarantee and Savings Fund is managed by a Managing Board composed of six members, three appointed by ICE and three appointed by the employees; this Board depends hierarchically on ICE's Board of Directors. The management of those funds is performed through separate vehicles, identified as Guarantee and Savings Fund, Supplemental Pension System, Mutual Fund and Severance Benefits Fund.

In December 2016, ICE performed an actuarial study on employee benefits related to severance, vacations, supplemental pension, and mutual fund, measuring them from 2014 until 2016. This study was performed with the support of an independent actuary, using as reference the guidelines indicated by IAS 19 *Employee Benefits*. Based on this actuarial study, ICE modified its policy to determine the employee benefit obligation related to severance benefits and vacation, adopting the practice of annually measuring the severance and vacation obligations through a qualified independent actuary, using the projected unit credit method. This change, which represents the adoption of a new policy, entailed the retrospective application of its effects on prior periods, as disclosed in note 18.

For employee benefits related to the Supplemental Pension System (both for active and pensioned employees), and the Mutual Fund (mortgage and personal loans), which have been classified as post-employment defined benefit plans, no changes were made to the current policy, maintaining the aforementioned booking and funding plan. Regarding the Guarantee and Savings Fund, it was classified as a defined contribution plan, where ICE's implicit obligation is limited to the voluntary contribution agreed with employees to the fund managed by that plan. Thus, the amount of the post-employment benefits receivable by the employee shall be determined by the amount of ICE's contributions plus the returns of the investments on such contributions. Consequently, the actuarial risk and investment risk are assumed by the employee. The aforementioned contribution plan is thus maintained; as previously indicated, ICE books an expense when it makes the contributions to such plan.

(ix) *Non-current assets held for sale*

ICE's implementation of this policy seeks to determine the requirements to classify an asset as available for sale, as well as their measurement and presentation in the financial statements.

Regarding the implementation of this new policy, no effect is recognized on the financial statements, prospectively or retrospectively, given that no assets were identified that comply with the requirements of the best practices to be classified as available for sale.

(x) *Related parties*

Until December 31, 2015, ICE disclosed as balances and transactions with related parties only those held with its subsidiaries.

In 2016, in order to include best practices in the disclosure of balances and transactions with related parties, ICE made the decision to extend the disclosure of related parties by including, in addition to subsidiaries, Government entities, special vehicles related to lease agreements (trusts), autonomous government agencies, State-owned financial entities, associates, joint ventures, and other entities. Furthermore, it was decided to disclose global key management personnel compensation, including short-term employee benefits, post-employment benefits, and other long-term benefits.

This change in the disclosure of balances and transactions with related parties is applied retrospectively.

(xi) *Presentation of operating segment information*

Prior to 2016, ICE Group disclosed in the notes to its consolidated financial statements financial information regarding two operating segments, i.e. the Electricity Segment and the Telecom Segment. The disclosed information was mainly limited to figures regarding operating profit or loss, and total assets and total liabilities of each segment.

In 2016, ICE Group made the decision to start adjusting that financial disclosure of segments to the requirements of IFRS 8 *Operating Segments*, issuing accounting criteria that specifically define the information to be disclosed, which is more than that disclosed in prior periods. Consequently, and since this is the first time issue of an accounting policy, it was applied retrospectively.

ICE Group's operating segments correspond to the Telecom Segment and Electricity Segment, and are disclosed in the consolidated financial statements of ICE Group.

Note 3. Summary of significant accounting policies

The accounting policies set out below, included in ICE's Accounting Policy Manual, and in the Accounting Criteria issued and in effect in 2016, have been applied to the periods presented in these consolidated financial statements. These accounting criteria are part of ICE's accounting policies; they are binding along with the Accounting Policy Manual and are subsequently incorporated therein. Such accounting criteria represent accounting policies adopted or changes to existing accounting policies, and their implementation is performed according to the "Accounting Policies, Changes in Estimates and Errors" policy used by ICE.

(Continued)

Certain comparative amounts in the consolidated balance sheet have been reclassified due to the correction of errors, changes in estimates and changes in accounting policies (see note 27).

(a) General accounting policies

(i) Basis of consolidation

- *Business combinations*

ICE Group accounts for business combinations using the cost method at the acquisition date, when control is transferred to ICE Group. Control is defined as the power to govern the financial and operating policies of the acquiree so as to obtain returns from its activities.

Transaction costs directly attributable to the acquisition process are booked as part of the value of the investment.

In the specific case of ICE, goodwill is measured at cost based on the financial statements of the acquiree at the acquisition date and considering the following:

- the value of consideration transferred by the Group's entity (acquirer);
- less the equity (carrying amount) of the acquiree at the acquisition date after the items with higher materiality levels have been aligned in accordance with the parent company accounting policies.

Goodwill arises from the acquisition of subsidiaries and represents the excess of the acquisition cost over the carrying amount (net equity) of the acquiree and is booked under "Intangible assets" in ICE Group's consolidated financial statements.

Until December 31, 2015, ICE followed the policy of systematically amortizing any goodwill originating from acquisitions using the straight-line method.

Goodwill derived from the acquisition made by CNFL is tested annually for impairment.

(In millions of colones)

- *Subsidiaries*

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

Subsidiaries	Country	Ownership interest as of December 31, 2016	2015
Compañía Nacional de Fuerza y Luz, S.A. (CNFL)	Costa Rica	98.6%	98.6%
Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)	Costa Rica	100%	100%
Radiográfica Costarricense, S.A. (RACSA)	Costa Rica	100%	100%
Cable Visión de Costa Rica, S.A. (CVCRSA)	Costa Rica	100%	100%

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

- *Transactions eliminated on consolidation*

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

(ii) *Accounting period*

ICE Group’s accounting period runs from January 1 to December 31 of each year.

(iii) *Recognition criteria*

Items that meet the following criteria are recognized in the consolidated financial statements:

- it is probable that any economic benefit associated with the item will flow to or from ICE Group
- the cost or value of the item can be reliably measured.

Transactions are booked in ICE Group's consolidated financial statements on the accrual basis of accounting, which means that the effects of transactions and other events are recognized when they occur and not when cash or other cash equivalent is received or paid.

All transactions and events of ICE Group should be booked in the accounting records in a timely manner and in chronological order in the financial statements for the corresponding periods.

(iv) *Foreign currency transactions*

During the period, all of ICE's transactions in foreign currencies are translated into the functional currency of ICE Group at the sell exchange rate for the Costa Rican colon with respect to the U.S. dollar in effect as of the immediately preceding year-end set by Banco Central de Costa Rica (BCCR) [Central Bank of Costa Rica] for operations with the non-banking public sector. As of the current year-end, the balances derived from foreign currency transactions are translated into colones using the sell exchange rate set by BCCR for operations with the non-banking public sector corresponding to the last business day of December of the current year. Foreign exchange differences resulting from the application of this procedure are recognized in profit or loss for the period.

Subsidiaries book foreign currency transactions at the exchange rate in effect on the transaction date. When determining their financial position and results of operations, assets and liabilities denominated in foreign currency are valued and adjusted at the exchange rate in effect as of the date of such determination and valuation, based on the exchange rate for operations with the non-banking public sector or the economic reality of the transactions. Foreign exchange differences resulting from application of this procedure are recognized in profit or loss in the period in which they occur.

(v) *Changes in accounting policies, accounting estimates, and errors*

ICE Group will change the policy only if such change:

a) Is required by a best practice used as reference in the policy already implemented by ICE Group.

b) Because the change to another policy means that the financial statements will provide more reliable and relevant information on the effects of transactions, other events or conditions that affect the financial position, financial return, or cash flows of the entity.

(Continued)

When a change is applied retrospectively, the opening balances of equity accounts for the oldest period presented are adjusted, disclosing information about the comparative amounts for each prior period presented. The retrospective application of a change in an accounting policy will be applied to prior periods and the comparative information adjusted, unless it is impracticable to determine the effects of the change in prior periods or the cumulative effect.

Changes in estimates result from changes in events or circumstances on which the estimate is based, such as new information obtained or more experience, thus requiring a review of the estimate.

The effect of a change in estimates will be recognized in profit or loss for the period in which the change occurs and to any future periods affected.

Errors may arise in the recognition, valuation, presentation, or disclosure of information in the financial statements.

Significant errors originating from prior periods are corrected retrospectively in the financial statements immediately subsequent to their detection, as follows:

a) Restatement of comparative information for the prior period or periods in which the error originated.

b) Restatement of the opening balances of assets, liabilities, and equity for the oldest comparative period presented, in the event that the error originated from a prior period.

When it is impracticable to determine the cumulative effect of a prior period error at the beginning of the current period, the comparative information will be restated by correcting the error prospectively from the date on which it is possible to do so.

(vi) *Subsequent events*

Events subsequent to the reporting period correspond to all events, favorable and unfavorable, occurring between the end of the reporting period and the date on which the consolidated financial statements were authorized for issue. The two types of events subsequent to the reporting period are as follows:

- events that provide evidence of the conditions at the end of the reporting period (events occurring after the reporting period that entail an adjustment)
- events that describe the conditions that occurred after the end of the reporting period (events occurring after the reporting period that do not entail an adjustment).

(Continued)

In the case of events that do not entail adjustments but, based on the valuation, are considered material because they may exert influence on the economic decisions of the users of the financial statements, the following must be disclosed:

- nature of the event
- estimate of the economic effect or an indication of the impossibility of performing such estimate.

Events subsequent to the reporting period include all events that occurred until the date on which the consolidated financial statements are authorized for issue, even if such events occur after publicly announcing the results or other specific financial information.

(vii) *<u>Cash equivalents for purposes of presentation in the consolidated statement of cash flows</u>*

<u>Banks</u>:

"Banks" is presented in the consolidated statement of cash flows as "Cash".

<u>Temporary investments</u>:

An investment is considered to be a cash equivalent if it is readily convertible into a determined amount of cash and is subject to an insignificant risk of changes in its value. Therefore, an investment is classified as a cash equivalent if its maturity date is three months or less from the acquisition date, provided there is no legal or constructive obligation to dispose of those resources.

<u>Restricted funds</u>:

For purposes of the consolidated statement of cash flows, restricted funds are considered to be cash equivalents if they meet the definition of cash equivalents and provided there is no legal or constructive obligation to dispose of those resources.

(viii) *<u>Hedging financial instruments (derivatives)</u>*

ICE Group 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.

ICE Group holds derivative financial instruments to hedge its interest rate and currency risk exposures. Hedge relationships used by ICE Group are fair value hedges and cash flow hedges.

Fair value hedges:

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

a) 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 period.

b) 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 period. 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 as 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, the hedge accounting is not discontinued.

Cash flow hedges:

When a cash flow hedge meets the established conditions during the period, it will be booked so that the effective portion of changes in the fair value of the derivative is recognized in equity, 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.

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

a) 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 as 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, since the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.

b) 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, since the period when the hedging became effective, will continue in equity separately until the expected transaction takes place.

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

(b) <u>Policies for property, machinery and equipment (operating assets)</u>

(i) *<u>Recognition and measurement</u>*

Fixed and controlled assets that are used mainly in the production and delivery of electricity and telecommunications services that are not intended to be sold are recognized as “Operating assets”. Assets used in administrative and operating activities that are expected to be used for more than one accounting period are booked as “Other operating assets”.

New operating assets are carried at operating or construction cost, plus any other directly related costs that are necessary to bring the assets to the location and condition necessary for operation.

ICE books under "Operating assets under finance leases" tangible and intangible assets classified as finance leases as per the contract, and the analysis is based on Gazette No. 42 of February 28, 2008, Decree 34334-MP. This decree defines the general conditions that should be incorporated into the finance and operating lease agreements subscribed by ICE Group's entities, executing that established by Executive Decree No. 39876 of December 6, 2005, issued by the Ministry of Finance.[1]

Operating assets are detailed in the significant components subledger. The booking of components is made according to the asset category level assigned, according to the characteristics of those assets regarding mobility, volume, and individual value. Thus, each asset component is booked separately, according to its nature, and depreciated separately based on the shortest useful life between the useful life of the equipment and the useful life of the main asset.

Items of operating assets, used by ICE in its operations, which are subject to rate regulation (telecommunications and electricity) are recognized at adjusted cost. Adjusted cost corresponds to the sum of the historical cost plus the revaluation adjustment; the sum of the accumulated depreciation of cost plus the revalued accumulated depreciation, and lastly the determination of the adjustment due to impairment.

Regarding the subsidiary CNFL, its operating assets are carried at acquisition or construction cost, plus a revaluation adjustment made based on an index determined with certain variables. For purposes of presentation of the consolidated financial statements of ICE Group, the effects of that revaluation are reversed. For the other subsidiaries, operating assets are booked at acquisition or construction cost.

Operating assets under finance leases received early by ICE Group are booked as such if and when the risks and rewards of those assets have been transferred to ICE Group and it can use them from the date of receipt and is responsible for their custody and use.

The cost of operating assets under finance leases received early is booked according to the calculation of the present value of each disbursement (delivery or receipt of the asset) at the time of receipt and when ready for operation, given that those assets are capitalized when they are in the location and condition necessary for operation as intended by management, generating the corresponding depreciation expense as of that moment.

[1] This decree regulates leases (operating and financial) for the 2016 financial statements; however, it was repealed in 2017, when ICE will review the new policy applicable until IFRSs are implemented for this type of transactions in 2022.

The calculation of the present value of operating assets under financial leases received early is made using the implicit financial rate of the lease, if and when its determination is practicable; if not available, the interest rate determined by ICE Group for similar situations.

The implicit financial burden determined for operating assets under financial leases received early is charged monthly during the early term to the consolidated statement of income and expenses, with an offsetting entry in the finance lease obligation.

If the financial burden determined is immaterial, due to the cost-benefit it is charged in the value of the asset and liability at the time of early receipt, situation that shall be determined based on the analysis of each specific case, providing a justification for the decision made.

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

Operating assets transferred to ICE once the BOT (Build, Operate, Transfer) agreements are concluded will be recorded at a symbolic value of ¢1.00 (one colon), given that the costs of such assets were recognized and depreciated by the third party over the term of the agreement and charged to ICE as part of the price of energy sold. In turn, ICE recognized the expense for the purchase of energy in profit or loss for the period over the term of the agreement.

Additions, improvements or retrofits, and reconstruction, and price adjustments[2] that meet the recognition criteria for property, machinery, and equipment are treated as costs subsequent to the acquisition or construction of an asset and, therefore, are capitalizable, provided they are not recurring costs or day-to-day servicing.

Price adjustments are capitalizable provided that they are directly related to an item of property, machinery, and equipment. Price adjustments may be performed during the construction process or when the asset is in use. Such price adjustments are depreciated over the remaining useful life of the corresponding asset.

[2] The term *price adjustment* is a right granted by the Government Procurement Act to claim or request adjustments to quoted prices contractually agreed with management of ICE to safeguard the contractors' equity or their rights to maintain the economic balance of contracts.

(Continued)

Reconstruction of an asset is booked as follows:

(i) If the reconstruction is virtually a total reconstruction, the asset is booked as a new asset, and the previous asset is written off.
(ii) In the case of a total reconstruction where parts of the previous asset are used, those parts must increase the cost of the new asset.
(iii) If the reconstruction is partial, retirement of the replaced part should be recognized and the reconstruction capitalized.

The partial or full write-off of operating assets should decrease the balance of cost accounts, as well as their respective accumulated depreciation. Write-offs will be performed at the component level for applicable items.

When replacing a component of an asset, it should be derecognized, and the carrying amount of the component or asset at the time of derecognition should be recognized in profit or loss for the period.

If the asset being replaced is fully depreciated, its derecognition shall be booked against accumulated depreciation. If the component has service potential, it should be warehoused or transferred to the productive asset in which it will be incorporated.

Costs incurred by ICE to acquire the right to use submarine cables and for the use of submarine fiber optic infrastructure for telecommunications transmissions are included as operating assets. The right to use submarine cables is amortized over the life of the use agreement from the start date of operation of that infrastructure.

(ii) *Depreciation of operating assets*

Items 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 its 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 to provide services and for project execution, whose depreciation does not correspond to a regular and uniform amount but 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 will be applied consistently in all periods, unless there is a change in the expected pattern of consumption of the future economic benefits.

(Continued)

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

To determine the useful life of each component 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, which must take into account:

a. the estimated period of time during which the depreciable asset will be used in production
b. specifications provided by the engineer or specialized technical personnel of the useful life of the depreciable asset, if it was acquired recently
c. expectations of the engineer or specialized technical personnel, regarding the future use of the depreciable asset and its remaining expected useful life
d. expected natural impairment
e. technical or commercial obsolescence derived from changes or improvements in production, or a change in the demand of the products produced by the asset
f. legal limits or restrictions on the use of the asset, and
g. 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, and if the analysis performed indicates that a change in useful life must be performed, it is adjusted prospectively, given that depreciation rates at a given time must reflect the most recent estimate of the useful life of the assets.

Operating assets that completed their assigned useful lives and are still in use in the normal course of business should be kept in the asset system database for control purposes. Additionally, depreciation calculations should be suspended.

Significant spare parts and replacement equipment are depreciated from the date that they are in the location and condition necessary for immediate use (installed), i.e. in the location and condition necessary to operate in the manner intended by ICE Group. 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.

Assets under finance leases are depreciated over the useful life of each component of the asset defined for the assets owned by ICE Group, when its acquisition at maturity of the lease is probable beyond reasonable doubt.

Leasehold improvements for which ICE Group will retain ownership upon maturity of the lease agreement shall be depreciated over the useful life of the assets owned by ICE Group.

Prior to 2016, ICE Group's operating assets (operating assets and other operating assets, owned by ICE or under finance leases) were revalued as follows:

(iii) *Revaluation of assets*

The accumulated balances of assets subject to revaluation, of both segments, as of December 31 of the prior year were revalued on an annual basis using indexes established by ICE Group for each class of asset, which could either increase or decrease their carrying amount.

The credit resulting from such revaluations was booked in the equity section as "Asset revaluation reserve". When the carrying amount was reduced as a result of a revaluation, such decrease was charged directly to the asset revaluation reserve previously recognized in relation to the same asset, insofar as such decrease did not exceed the balance of the previously recognized asset revaluation reserve. In that case, the excess amount was recognized in profit or loss for the period.

(iv) *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 ICE Group as "Construction work in progress."

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

In the construction phase, the items accrued in each component where the qualifying asset is to be capitalized must be controlled by the corresponding technical area.

(Continued)

Finance costs are capitalized if they are directly related to the acquisition, construction, or production of qualified assets. ICE Group begins capitalizing borrowing costs when the asset is in the design and planning stage, during the construction of the works or under construction agreements, and may continue until the asset is ready for its intended use.

Foreign exchange differences are not capitalized during the execution of the works.

ICE Group begins capitalizing borrowing costs as part of the cost of an asset on the commencement date. The commencement date for capitalization is the date when ICE first meets all of the following conditions:

- It incurs expenditures for the asset;
- It incurs borrowing costs; and
- It undertakes activities that are necessary to prepare the asset for its intended use.

Finance costs are no longer capitalized and are expensed to the period when construction work is interrupted during 3 months or more or when the asset under construction is placed in service.

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, will be accrued as "Production management costs for construction work in progress".

"Production management costs for construction work in progress" are allocated on a monthly basis to projects in the design and execution phases, or the construction phase, as appropriate.

Where appropriate, costs accrued in the prior project design and execution phase shall be transferred to "Construction work in progress" after the work has been authorized.

Mitigation and social compensation costs are booked as part of "Construction work in progress" and subsequently capitalized to operating assets, provided that the following conditions are met:

- Costs are necessary for the development of ICE Group's projects.
- Costs are a requirement that ICE Group must comply with in order to obtain social and environmental feasibility permits for its projects. If such requirement is not met, project development start-up may be affected.

(Continued)

- Costs are an integral part of the Environmental Management Plan; accordingly, they must be duly planned and included therein, as well as controlled as part of ICE Group's "Baseline".
- Costs can be reliably identified and measured.

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. ICE Group may consider any other actions performed by management, which created a valid expectation of marking an investment, before third parties to whom it must comply with its commitments or responsibilities.

The status of construction work in progress is determined based on technical criteria that rely on analyses to determine percentage of completion of projects.

Total or partial capitalization of construction works is appropriate when the asset is in the condition necessary for its use. Capitalizations are made through a settlement of work orders issued by the respective segments to be booked within a maximum term of two months from the date on which the assets are in the condition necessary for its use, in accordance with the segment's indications.

If a decision is made to suspend a construction project, the "Construction work in progress" account should be adjusted and the accrued costs should be expensed to the period, provided those costs cannot be transferred to inventory and are not recoverable.

(v) *Materials in transit for investment*

The cost of materials and equipment for investment requested from suppliers through a purchase order is booked as "Materials in transit for investment".

Materials in transit for investment requested from suppliers should be booked for the amount shown on the purchase order, plus incidental costs necessary for their purchase.

Finance costs directly attributable to the acquisition of goods and services are included in their acquisition cost during the period from the issue of the purchase order to the date of receipt of the goods and services.

Materials in transit are fully or partially liquidated when the materials enter the entity's warehouses or are delivered to third parties.

(vi) *Inventory for investment projects*

The cost of physical goods in stock that will be used in the construction of productive assets is booked as "Inventory for investment projects".

The methods used to value inventory for investment projects are: specific lot identification and moving average cost. Specific lot identification makes it possible to associate each item with the specific originating purchase. The moving average cost method is applicable to materials that are too large to be tracked by lot, and to materials that given their volume and method of storage cannot be matched with individual purchase entries.

ICE Group books the acquisition costs of assets plus any incidental costs necessary to bring them to their present condition and location as part of its inventories.

Inventory, equipment, or spare parts transferred to ICE once BOT agreements or operating lease agreements are concluded will be recorded at a symbolic value of ¢1.00 (one colon), given that the costs of such assets were included in the amount for the purchase of energy or lease payments and recognized by ICE over the term of the agreement in profit or loss for the period.

"Inventory for investment projects" decreases when the inventories are used in construction or when they are disposed of due to obsolescence, impairment, or warehouse shortages.

(c) *Impairment of assets / non-financial assets*

Starting 2016, ICE adopted the practice of reviewing at each reporting date the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. This practice is performed by the subsidiaries due to the basis of accounting used for their financial statements. For impairment testing, ICE grouped its assets into two separate CGU, considering independent cash inflows from each of the CGUs and the manner in which management monitors the operation and makes decisions on the continuity or final disposal of the assets and operations of those CGUs. These CGUs are related to the Electricity Segment and the Telecom Segment. This policy contemplates the review of the allocation of assets into those two CGUs when there are events and circumstances that may affect the definition of those CGUs.

ICE Group uses the value in use to determine the recoverable amount of the CGUs; therefore, it is not necessary to compare the value in use to fair value.

(Continued)

ICE Group records impairment of a CGU when the carrying amount exceeds its recoverable amount. In that case, ICE Group adjusts the valuation of the asset or assets that are part of the CGU up to the recoverable amount (without reducing the carrying amount below the higher of the value in use or zero), booking an impairment loss.

ICE Group will perform a formal estimation of the recoverable amount of assets with definite useful lives when there is any indication of impairment; thus, if there is no evidence of impairment the calculation of the recoverable amount is not necessary.

When assessing whether there is any indication of impairment of a CGU, ICE Group must consider the following, at a minimum:

External sources of information:

a. Observable indication that the value of the CGU decreased during the period significantly more than would be expected from the passage of time or from its normal use.

b. There have been or there will be significant changes during the period with adverse effects on the entity, related to the legal, economic, technological, or market environment in which it operates.

Internal sources of information:

a. There is evidence of obsolescence or physical damage of an asset or group of assets that are part of the CGU.

b. During the period significant changes occur or are expected to occur in the near future, in the scope or manner in which the asset or assets that make up the CGU are used or expected to be used that will negatively affect the entity, such as: idle assets, plans for discontinuation or restructuring of the operation to which the asset or assets that make up the CGU are part of, or plans for disposal before the expected date.

c. There is evidence from internal reports indicating that the economic performance of the asset or assets of the CGU is, or will be, worse than expected.

ICE Group will perform annual testing for impairment of the value of intangible assets with indefinite useful lives independently of the existence of indications of impairment. Consequently, the most recent calculations (performed in the prior period) of the recoverable amounts of the CGUs can be used to verify impairment of the value of the intangible asset in the current period, if and when the following requirements are met:

a. The intangible asset does not generate cash inflows that are largely independent from those of other assets or groups of assets; consequently, its impairment is confirmed as part of the CGU it is part of.

b. The most recent calculation of the recoverable amount resulted in an amount that significantly exceeds the carrying amount of the asset.

c. Based on an analysis of the events and circumstances that occurred and circumstances that have changed since the most recent calculation of the recoverable amount, the probability that the current recoverable amount is lower than the carrying amount is remote.

ICE Group must adjust the depreciation charge of the assets that make up the CGU in future periods, following the recognition of an impairment loss, to distribute the revised carrying amount of the CGU systematically over the remaining useful life.

ICE Group will identify all common or corporate assets related to the CGU being tested for impairment and will take into account the corresponding considerations regarding those assets.

Impairment losses to decrease the carrying amount of the assets of the CGU (or group of CGUs) will be distributed as follows:

a. First, reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs); then

b. Reduce the carrying amounts of the other assets of the CGU (or group of CGUs), beginning with the operating assets of each CGU and ending with the common assets (corporate assets).

The impairment loss will be allocated among the CGU’s assets according to the pattern that best fits the economic reality of the assets. If a specific pattern is not identified, it will be allocated on a pro rata basis.

(Continued)

ICE Group will recognize in profit or loss the subsequent reversal of an impairment loss. The carrying amount of the asset (or CGU) increased, after the reversal of the allowance, shall not exceed the carrying amount that would have been determined if no impairment loss had been recognized on the asset (or CGU) in prior periods.

ICE Group also recognizes the physical impairment of its assets, caused by unforeseeable circumstances or other physical damage of the assets. This is recognized in profit or loss.

(d) Investments and long-term accounts receivable

Long-term investments

The cost of financial instruments acquired to obtain ownership interest or control in related parties, so as to develop energy and telecommunications activities, is booked as “Long-term investments”.

Investments in entities, acquired in order to obtain ownership interest, other than those which due to their control are classified as subsidiaries or associates, are booked at acquisition cost. Furthermore, investments in entities that have not begun their operating stage, which due to their ownership interest percentage qualify as subsidiaries or associates, are booked at cost until their operations begin.

Long-term financial investments

Financial instruments (long-term certificates of deposit, bonds, foreign debt bonds, among other) with terms of more than one accounting period are booked as “Long-term financial investments”.

“Long-term financial investments” are booked at face value, which is the amount due from the debtor at maturity under the agreed terms.

Premiums or discounts and transaction costs are booked as part of financial instrument assets and liabilities, which are subsequently recognized in the statement of income and expenses, according to the effective interest method, during the time that economic benefits are expected to be received therefrom or during the term of the liabilities.

Long-term financial investments are settled when the rights are extinguished.

(Continued)

Long-term notes receivable

Credits granted with terms of more than one accounting period are booked as "Long-term notes receivable".

"Long-term notes receivable" are booked at face value, which is the amount due from the debtor at maturity under the agreed terms. That value is maintained for the entire term and until they are recovered.

"Long-term notes receivable" are settled when the rights are extinguished or transferred.

ICE Group reclassifies the portion of notes receivable expected to be recovered during the following year as a current asset.

(e) Policies for current assets

Banks

Transactions affecting national and foreign cash deposited in the current accounts of both public and private, national or foreign financial entities and that will be used in ICE Group's operations are booked as "Banks". Bank accounts are booked at face value.

Components that are not subject to any formal use restrictions should be booked in "Banks".

Temporary investments

The cost of financial instruments acquired using the temporary cash surplus is booked as "Temporary investments".

Held-to-maturity temporary investments are carried at face value, while available-for-sale temporary investments are carried at fair value.

Premiums or discounts and transaction costs are booked as part of financial instrument assets and liabilities, which are subsequently recognized in the statement of income and expenses, according to the effective interest method, during the time that economic benefits are expected to be received therefrom or during the term of the liabilities.

"Temporary investments" are booked as available-for-sale investments or held-to-maturity investments, depending on ICE Group's intent and financial ability to hold to maturity.

“Temporary investments” are booked as committed and uncommitted, depending on whether they represent sureties, guarantees, repurchase operations, or other types of obligations.

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

The valuation of investments designated at initial recognition as available for sale is made through a price vector, using the vector provided by Proveedor Integral de Precios Centroamérica (PIPCA) [Central American Comprehensive Pricing Provider] as a benchmark. This method is used to determine the market value of such investments, which is then compared to the carrying amount of the investment. The gain or loss obtained from the valuation is booked against the equity account under the heading “Result of valuation of financial instruments”, until it is derecognized.

When the investment in available-for-sale securities is settled or derecognized, the accumulated gain or loss previously recognized in equity is included in profit or loss.

Investment valuations are booked at least once a month. Accordingly, there is a sale indicator, and reasonable values are established.

The effect of exchange rate variations on the value of temporary investments expressed in foreign currency is booked in profit or loss.

Valuations are not be booked if investments expire, are traded, or are reclassified from available-for-sale to held-to-maturity investments.

<u>Restricted funds</u>

“Restricted funds” are financial resources with limitations on their use that are received as a guaranty for services to be rendered to ICE Group.

Restricted funds are carried at face value and are eliminated when they are returned to the guarantors.

<u>Receivables</u>

The right to demand payment from customers for electricity and telecom services, as well delinquent entries in administrative or legal collection, are booked as “Receivables for services rendered”.

(Continued)

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

"Receivables for services rendered" and "Non-trade receivables" are booked for the amount payable of the invoice, agreement, contract, or law underlying the transaction, which indicates the amount payable, the due date, and the agreed terms, depending on the type of service.

Reciprocal accounts receivable and payable between ICE Group and a third party must be booked as independent transactions, but they are offset if agreed by the parties, there is a legal right to offset, and if there is an intent to either settle on a net basis or to realize the asset and settle the liability simultaneously.

"Receivables for services rendered" are settled when the right is exercised, or transferred to accounts in administrative collection in the case of payment default.

"Non-trade receivables" are settled when the right is exercised, or the accounts are written off against the allowance for doubtful accounts due to non-payment.

Allowance for doubtful accounts

In the Telecom Segment and Electricity Segment, "Allowance for doubtful accounts" is booked for the amount determined on a monthly basis by applying factors or percentages to the monthly billing of receivables for services rendered. In the case of other non-trade receivables, a fixed amount is applied to cover the potential uncollectibility of those charges.

An account receivable is booked as doubtful when the unpaid balance, after applying the corresponding security deposit, if any, is less than the established cap of ¢50,000 (exactly fifty thousand colones) in the respective period, after administrative collection proceedings have been exhausted. The agency must provide evidence of the procedures performed. Balances between ¢50,000 (fifty thousand colones) and ¢100,000 (one hundred thousand colones) will be kept for two years in the subledger of accounts in legal collection. Once that period has elapsed, those balances are automatically booked in the "Allowance for doubtful accounts" by the corresponding technical areas of each segment.

Amounts in excess of ¢100,000 (one hundred thousand colones) are kept in the corresponding subledger until a request is received from the Corporate Legal Department to declare the amount as a doubtful account.

The balance of the allowance for doubtful accounts is reviewed periodically to ensure coverage of accounts that are potentially uncollectible.

When an account receivable is determined to be uncollectible, the allowance for doubtful accounts should be reduced by the amount of the bad debt.

Notes receivable

Loans granted to third parties with a term of one year or less are booked as “Notes receivable”.

“Notes receivable” are booked at face value, which is the amount due from the debtor to ICE Group at maturity and under the agreed terms.

“Notes receivable” should be settled either when the rights are extinguished, when they are classified as doubtful accounts, or when the asset is transferred.

Operating inventory

The cost of the physical assets held in ICE Group’s warehouses with the purpose of using them in operating and maintenance activities related to productive assets, as well as for administrative or management purposes, is booked as “Operating inventory”.

The methods used by ICE Group to value operating inventories are: specific lot identification and moving average cost. Specific lot identification makes it possible to match each item with the specific originating purchase. The moving average cost method is applicable to materials that are too large to be tracked by lot, and to materials that given their volume and method of storage cannot be matched with individual purchase entries. Incidental costs necessary to bring the asset to its present location and condition are booked as part of inventories.

Inventory, equipment or spare parts transferred to ICE once BOT agreements or lease agreements are concluded will be recorded at a symbolic value of ¢1.00 (one colon), given that the costs of such assets were incorporated in the amount for the purchase of energy or lease payments and were recognized by ICE during the term of the contract in profit or loss for the period.

Operating inventory decreases when used or retired due to obsolescence, impairment, or warehouse shortages.

(Continued)

The amount provisioned to cover possible losses arising from obsolescence, impairment, and warehouse shortages is booked as an "Allowance for valuation of operating inventory". The allowance for valuation of operating inventory should be reduced when an item of inventory is determined to be obsolete or impaired, or there is an inventory shortage.

The amount of the allowance for valuation of operating inventory should be reviewed from time to time so as to ensure coverage of potential obsolescence, impairment, or shortages.

The cost of physical goods for sale that should be tracked while the goods are out of the warehouse is booked as "Materials and equipment held in custody".

Materials and equipment held in custody are excluded when sold or returned to the warehouses.

Materials in transit for operations

The cost of the materials and equipment for operations requested from suppliers through purchase orders is booked as "Materials in transit for operations".

Materials in transit for operations requested from suppliers should be booked for the amount shown on the purchase order, plus incidental costs necessary for their acquisition.

Borrowing costs directly attributable to the acquisition of goods and services are included in their acquisition cost during the period from the issue of the purchase order to the date of receipt of the goods and services.

Materials in transit for operations are charged against inventory accounts (operations) once the respective "certificate of receipt of materials" (CRM) has been issued.

Prepaid expenses

Prepaid expenses include the following:

(i) The cost of expenditures for the future receipt of goods and services under agreements subscribed.
(ii) Mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans. Such amounts are expensed based on the term of the post-paid plan or package, matching the costs with the plan's income.

(Continued)

(iii) Fuel consumption to generate thermal power, when the rate adjustments approved by the regulatory authority related to such cost are applied in the same accounting period in which they are requested and are a result of mismatches in connection with the Variable Fuel Cost (CVC) Methodology. Such cost is incurred and booked in the separated statement of income and expenses on a straight-line basis over the term established by the regulatory authority to recover such costs through rate adjustments. Such term may vary in accordance with subsequent communications from the regulatory authority.

(iv) The costs of imported electricity, when the rate adjustments approved by the regulatory authority are applied in the same accounting period in which the expense was made. The related recognition should be deferred in the term established by the regulatory authority. Such cost is incurred and booked in the consolidated statement of income and expenses over the term established by the regulatory authority to recover such costs through rate adjustments. Such term may vary in accordance with subsequent communications from the regulatory authority.

(v) Additional costs for the purchase of energy from independent power producers recognized by the regulator and to be recovered through the energy rates. The related recognition should be deferred over the term established by the regulator. Such cost is amortized in the consolidated statement of income and expenses over the term established by the regulator to recover such costs through rate adjustments.

"Prepaid expenses" are booked at acquisition cost.

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

"Prepaid expenses" related to the cost of mobile terminals are expensed when the service is canceled or the plan is changed.

Available-for-sale assets

ICE Group classifies a non-current asset (or disposal groups) as available for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

ICE Group classifies an asset (or group of assets) as available for sale provided that it meets the following requirements:

a. The asset must be available for immediate sale, in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups).

b. The sale must be highly probable.

c. The appropriate level of management must be committed to a plan to sell the asset.

d. An active program to locate a buyer and complete the plan must have been initiated.

e. The asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

f. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification except as permitted to extend the period to complete the sale. Additionally, the actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

If ICE Group classifies an asset or group of assets as available-for-sale but fails to meet all of the criteria, it will no longer classify the asset or group of assets for disposal as available-for-sale, but rather as fixed assets or another category, as appropriate.

For assets classified as available for sale, ICE Group can extend the period to complete the sale beyond one year, provided that events and circumstances occur to justify holding the asset, such as events beyond control, and there is sufficient evidence that ICE Group remains committed to the selling plan. ICE Group will be exempted from applying the one-year requirement in the following situations, which demonstrate events or circumstances beyond its control:

a. at the date ICE Group commits itself to a plan to sell a non-current asset (or disposal group) it reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (or disposal group) that will extend the period required to complete the sale, and.

b. ICE Group obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a non-current asset (or disposal group) previously classified as held for sale that will extend the period required to complete the sale, and timely actions necessary to respond to the conditions have been taken, and a favorable resolution of the delaying factors is expected

c. during the initial one-year period, circumstances arise that were previously considered unlikely and, as a result, a non-current asset (or disposal group) previously classified as held for sale is not sold by the end of that period, and:

(i) during the initial one-year period, the entity took action necessary to respond to the change in circumstances;
(ii) the non-current asset is being actively marketed at a price that is reasonable, given the change in circumstances; and
(iii) criteria established for the classification of an asset as held for sale are met.

(a) Other assets

Service agreements

The cost of services for construction and technical services provided by ICE Group to third parties is booked as "Service agreements".

"Service agreements" are booked at execution cost, plus any other costs related to development, provided they can be identified and reliably measured.

Costs accrued and incurred during the project design and execution phase are included in the value of service agreements, if so stipulated in the agreement.

"Mitigation and social compensation costs" are booked under "Service agreements" when they are identified and reliably measured, are an integral part of the Environmental Management Plan, are duly planned and included therein, and are controlled as part of ICE's "Baseline", provided they are also an integral part of the cost of the agreement and are recoverable for ICE Group.

Service agreements with third parties are settled based on percentage of completion of the works, partial deliveries, or full payment upon delivery of the good or service, as stipulated in the agreement.

Whenever it is likely that the total costs of an agreement at the final settlement date will exceed the amount stipulated, the resulting difference is charged to expense for the period.

Project design and execution

Costs incurred prior to the construction of projects or works and that form part of the investment phase are booked under the heading "Project design and execution". Those costs include the basic and final design of the works, as well as the corresponding technical, economic, and financial studies.

Project design and execution costs are booked at execution cost, plus any other costs related to their development, provided they can be identified and reliably measured.

Mitigation and social compensation costs are booked as part of the project design and execution works and are subsequently capitalized to “Construction work in progress”, provided that the following conditions are met:

a. These costs are considered to be necessary for the development of ICE Group’s projects.

b. These costs are a requirement that ICE Group must comply with in order to obtain social and environmental feasibility permits for its projects. If such requirement is not met, project development start-up may be affected.

c. These costs are an integral part of the Environmental Management Plan; accordingly, they must be duly planned and included therein as well as controlled as part of ICE Group’s “Baseline”.

d. These costs can be reliably identified and measured.

Balances accrued in the project design and execution account for construction works owned by ICE Group are cleared and transferred to “Construction work in progress” account, or they are expensed in the period if the project is scrapped, or the project is not anticipated to produce any future economic benefits.

Technical service centers - investment

Costs incurred by specialized technical units for the provision of services to units in the same segment, to other segments of ICE, and to third parties are booked as “Technical service centers - investment”.

Technical service centers book their operations at the cost incurred to provide the service.

In providing outside services, the technical service centers charge a portion or all of their costs to the accounts indicated in the open service orders, depending on the likelihood of recovery.

Investment in reforestation agreements

Amounts paid for acquisition of rights as co-owners of reforestation plantations are booked as investments in reforestation agreements by the subsidiary RACSA. Disbursements incurred in relation to forest developments are capitalized as part of the investment. The value of this investment is amortized as development revenues are realized. Signing of these agreements entitles RACSA to receive a share of the net revenue generated through the future use of the agreements.

RACSA also books a "Forest development reserve" plus all costs incurred in its development. The purpose of the reserve is to cover any potential losses associated with future use of investments in forestry agreements.

Intangible assets

(i) *Recognition and measurement*

Assets that do not have a physical substance and are expected to be used for more than one accounting period for administrative activities or activities other than normal operations and rights of way or easements on land currently in use or for future use to provide electricity and telecommunication services that are expected to be used for more than one accounting period or indefinitely are booked as "Intangible assets".

Intangible assets are as follows:

a. licenses and software
b. systems and applications
c. rights of way or easements on land

Intangible assets acquired from third parties are booked at acquisition cost, plus any costs directly attributable to preparation of the asset for its intended use. Rights of way or easements on land are booked from the date the corresponding agreement is signed and for the amount agreed by ICE Group and the land's owner.

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

a. research phase
b. development phase.

(Continued)

Intangible assets arising from the research phase are not recognized. Expenditure on research is recognized as an expense when it is incurred.

Intangible assets arising from the development phase are recognized if, and only if, ICE Group can demonstrate all of the following:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale.

b. its intention to complete the intangible asset and use or sell it.

c. its ability to use or sell the intangible asset.

d. how the intangible asset will generate probable future economic benefits. Among other things, ICE can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself, or, if it is to be used internally, the usefulness of the intangible asset.

e. The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

f. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset includes all directly attributable costs necessary to create, produce, and prepare the asset for operation as intended by management.

Qualifying assets developed internally or provided by third parties are capitalized as intangible assets.

Intangible assets include additions or improvements made to qualifying operating assets.

Expenditures subsequent to acquisition of intangible assets are only booked as intangible assets if they meet the aforementioned recognition requirements; otherwise, they should be expensed to the period.

In the case of CNFL, “Intangible assets” correspond to costs incurred in rights of way and easements as well as software and licenses acquired during the modernization process of the computer information systems.

(ii) *Amortization*

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

The amortizable amount of intangible assets is comprised of acquisition or construction cost plus any incidental costs.

Intangible assets with an indefinite useful life are not amortized but will be reviewed on an annual basis to ascertain whether this treatment continues to be appropriate.

Rights of way and easements on land with an indeterminate useful life, i.e. when a defined term in which the asset will continue to generate benefits to ICE Group is not distinguishable, are not amortized.

If right of way or easement agreements are subscribed for a defined period, such rights must be amortized over the term of the agreements in which they generate benefits to ICE Group. 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.

Rights of way or easements on land are not revalued.

Intangible assets that completed their assigned useful lives and are still in use should be kept in the asset system database for control purposes. Additionally, amortization calculations should be suspended.

Disposals of intangible assets should decrease both cost and amortization accounts.

In the case of CNFL, rights of way or easements are amortized over agreed periods of between two and 15 years; if agreed to perpetuity, these rights are not amortized. Software and licenses acquired are amortized straight-line over a period of between one and three years.

Securities received as guaranty deposits

Documents equivalent to cash received from customers as a payment guarantee for services rendered or expected to be rendered are booked as "Securities received as guaranty deposits".

Securities received as guaranty deposits are booked at face value.

Securities received as guaranty deposits are excluded when the service is completed, the agreement is extinguished, or the contract is breached by the customer.

Guarantee and Savings Fund (restricted fund)

Contributions made to the Guarantee and Savings Fund and the Supplemental Pension System, plus returns derived therefrom, less amounts transferred to employees and fund management losses, are booked as "Guarantee and Savings Fund (restricted fund)".

The Supplemental Pension System is created by ICE for the benefit of the beneficiaries grants an additional pension to any public sector pension system. ICE's monthly contribution to that pension system is equivalent to 4.5% of the employees' monthly salaries (see note 2.e).

The Guarantee and Savings Fund was created with the goal of granting mortgage and personal loans to employees for housing. ICE's monthly contribution to this fund is equivalent to 5% of the employees' monthly salaries (6% prior to July 1, 2016) (see note 2.e).

Transfers to ICE's Guarantee and Savings Fund

Monthly contributions provided for and transferred to the Guarantee and Savings Fund are booked as "Transfers to ICE's Guarantee and Savings Fund" to pay severance benefits related to permanent employees. Such transfers correspond to the amount calculated as 3.5% of the employees' monthly salaries (see note 2 e).

The balance of transfers made to the Guarantee and Savings Fund decreases when severance benefit payments are made to ICE's former employees.

(b) Long-term liabilities

Securities payable

Obligations with third parties assumed as a result of the issue of debt securities (bonds) that represent payment commitments for terms of more than one year are booked in "Securities payable".

Obligations for securities issued by ICE Group are recognized at face value based on the contracted debt.

Premiums or discounts and transaction costs are booked as part of financial assets and liabilities in the consolidated statement of income and expenses using the effective interest method over the period of time 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 debt securities (bonds) is recognized when the entity amortizes or settles any amount owed.

ICE Group books the portion of long-term securities payable expected to be settled within one year as "Short-term securities payable".

Long-term loans payable

Obligations assumed for more than one accounting period with entities, financial institutions, suppliers, or lessors are recognized as "Long-term loans payable".

Long-term loans payable are booked at the face value of the underlying contracts.

Premiums or discounts and transaction costs are booked as part of financial assets and liabilities in the consolidated statement of income and expenses using the effective interest method over the period of time in which economic benefits are expected to be obtained from such items or during the maturity term of the liabilities.

ICE Group books the portion of long-term loans payable expected to be settled in one year or less as "Short-term loans payable".

"Long-term loans payable" are recognized as the financial entity or supplier transfers the cash flows or assets to ICE Group, or to suppliers on behalf of ICE Group, or as interest is capitalized over the loan disbursement period, as agreed.

(Continued)

A partial or full decrease in “Long-term loans payable” is recognized when the amount amortized over one year is transferred to the short-term portion and when the amount owed is amortized or settled.

Long-term loans payable are presented in the consolidated balance sheet under “Long-term liabilities” as they become due with respect to the other items in this group.

ICE Group reclassifies as “Short-term loans payable” long-term debt resulting from noncompliance with the provisions set forth in the loan agreements at the end of the reporting period or earlier, if such noncompliance is declared by the creditor, expressly requiring payment from ICE Group in the short term, regardless of the status of negotiations of waivers or amendments with the creditor.

With respect to the aforementioned noncompliance, ICE Group will disclose the following:

a. Loans with which ICE failed to comply during the period and their carrying amount.

b. Whether noncompliance is cured or the conditions of loans payable are renegotiated.

c. Negotiated conditions in the case of amendments or waivers for each loan.

<u>Obligations derived from credit</u>

Temporary liabilities arising from commitments with suppliers for purchase orders financed by a special purpose loan that the financial entity settles directly with suppliers are booked as “Obligations derived from credit”.

Obligations derived from credit are booked at the face value of purchase orders.

Obligations derived from credit are partially or fully paid when the financial entity settles any commitments with the supplier on behalf of ICE Group. This payment is accounted for as settlement of the original financial liability, recognizing a new financial liability with the entity that settled the obligation.

<u>Long-term finance lease obligations</u>

Obligations assumed for more than one accounting period with entities, financial institutions, suppliers, lessors, or other, related to the receipt of assets under finance leases are recognized as “Long-term finance lease obligations”.

Obligations assumed with different entities arising from the ordinary course of business with settlement dates of more than one year are recognized as “Long-term finance lease obligations”. The portion to be settled in one year or less is recognized in the short-term section.

Finance lease obligations are booked at the face value of the contracts or, in the event of early receipt of the asset, the present value of each disbursement (receipt of the asset), until reaching the face value during the early term and until the start of the lease, which is established in the contract.

Long-term finance lease obligations are valued at the total amount payable under contractual obligations.

ICE Group books the portion of the long-term obligations expected to be settled in one year or less under short-term lease obligations.

A partial or full decrease in “Long-term finance lease obligations” is recognized when the obligations are transferred to the short-term portion and when ICE Group amortizes or settles any amount owed.

<u>Long-term accounts payable</u>

Obligations assumed with different entities arising from the ordinary course of business with settlement dates of more than one year are booked under “Long-term accounts payable”. The portion to be settled in one year or less is booked in the short-term section.

Long-term accounts payable are valued at the total amount payable under contractual obligations and are recognized as follows:

- Import purchase orders: the liability is recognized when the purchase order is issued.
- Local purchases: the liability is recognized upon acceptance of the CRM.
- Accounts payable on the transfer of assets (BOT): are recognized when ownership of the asset is transferred to ICE Group.

A partial or full decrease in “Long-term accounts payable” is recognized when they are transferred to the short-term portion and when ICE Group amortizes or settles any amount owed.

Security deposits

Obligations arising from cash received by ICE Group from its customers to provide electricity and telecom services are booked as "Security deposits". The objective of this liability is to ensure partial or full recovery of bills that might not be paid by its customers.

Security deposits are recognized at face value.

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

Long-term prepaid income

"Long-term prepaid income" includes government aid received from local or foreign governments that meet the conditions to be considered government grants and that are expected to be realized as income during more than one accounting period.

"Long-term prepaid income" is booked at the fair value of the government grant received.

Prepaid income decreases as the current portion that is expected to be realized in income during the accounting period is reclassified to "Short-term prepaid income".

Government grants are systematically allocated based on the useful life of the asset related to the grant received.

(c) Short-term liabilities

Short-term securities payable

Obligations with third parties assumed as a result of the issue of debt securities (commercial paper) that represent payment commitments for terms of one year and the current portion of "Long-term securities payable" expected to be settled within one year are booked under "Short-term securities payable".

Obligations for securities issued by ICE Group are recognized at face value based on the contracted debt.

A partial or full decrease in short-term securities payable is recognized when ICE Group amortizes or settles any amount owed.

Short-term loans payable – working capital

Obligations assumed with entities or financial institutions for one year or less are booked under “Loans payable – working capital”.

“Loans payable – working capital” is booked at the face value of the underlying contracts.

A partial or full decrease in “Loans payable – working capital” is recognized when the entity amortizes or settles any amount owed or when the obligation expires.

Short-term loans payable

The portion of long-term loans payable expected to be settled within one year and long-term debt payable in the short term, as expressly indicated by the corresponding creditor, due to noncompliance with the obligations established in the agreements are recognized as “Short-term loans payable”.

Short-term loans payable are recognized at the face value of the underlying contracts.

A partial or full decrease in “Short-term loans payable” is recognized when ICE Group amortizes or settles any amount owed or when the obligation expires.

Short-term finance lease obligations

The portion of long-term finance lease obligations expected to be settled in one year is booked as “Short-term finance lease obligations”.

Finance lease obligations assumed with different entities arising from the ordinary course of business are booked as “Short-term finance lease obligations”. Short-term finance lease obligations with settlement date of more than one year, if any, are reclassified in the long-term section of the consolidated balance sheet.

Short-term finance lease obligations are valued at the total amount payable under the contractual terms.

A partial or full decrease in short-term obligations is recognized when ICE Group amortizes or settles any amount owed or when the obligation expires.

Short-term accounts payable

Obligations assumed with different entities arising in the ordinary course of business are booked as “Short-term accounts payable”. Any accounts payable with a settlement date of more than one year are reclassified to the long-term section of the consolidated balance sheet.

Short-term accounts payable are valued at the total amount payable under contractual obligations.

Short-term accounts payable are recognized as follows:

- Import purchase orders: the liability is recognized when the purchase order is issued.
- Local purchases - the liability is recognized upon acceptance of the CRM.
- Accounts payable arising from the transfer of assets (BOT) are recognized when the asset is transferred to ICE Group.

A partial or full decrease in short-term accounts payable is recognized when ICE amortizes or settles any amount owed or when the obligation expires.

Accrued finance expenses payable

“Accrued finance expenses payable” include borrowing costs (interest and commissions) accrued but not paid resulting from obligations assumed with financial institutions or agencies.

Accrued finance expenses payable are valued at historical cost according to the contractual terms and conditions of the respective debt.

A decrease in accrued finance expenses payable is recognized when the entity settles any amount owed or when finance expenses are capitalized.

Short-term prepaid income

Obligations arising from advance payments made by customers for services rendered in the ordinary course of business, construction services provided to third parties, and the current portion of long-term government grants expected to be realized in profit or loss within one year are recognized as “Short-term prepaid income”.

(Continued)

The "Prepaid income" item is booked at the agreed value of the services rendered or at the fair value of the government grant received.

Prepaid income decreases as the services are rendered or the systematic allocation of government grants is realized in profit or loss based on the useful life of the main asset related to the grant received.

<u>Deposits from private individuals or companies</u>

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 ICE Group are booked as "Deposits from private individuals or companies".

Deposits from private individuals or companies are booked at face value or at the amount agreed for construction of the works.

This item is paid when the service is provided, the contract is extinguished, deposits are reimbursed to the guarantors, or the customer violates the terms and conditions of the contract.

<u>Accrued expenses for employer obligations</u>

The amount calculated to pay the statutory Christmas bonus, vacation days, and the back-to-school bonus is recognized as "Accrued expenses for employer obligations". These benefits correspond to short-term employee benefits, except in the case of ICE, where vacation days have been classified as a long-term benefit and whose value is quantified by a qualified actuary, as explained below. Short-term benefits are recognized as expenses when the related service is rendered.

(i) *<u>Statutory Christmas bonus</u>*

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. ICE Group records a monthly provision to cover future disbursements related therewith.

(ii) <u>Vacation</u>

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 the institution or other public sector entities where the employee has previously worked. There is a guideline in place which establishes that vacations should not be accrued, but in practice there are employees with accrued vacations from several periods without losing the benefit in spite of the accrual, which has led ICE to classify that benefit as a long-term employee benefit. Accordingly, in 2016, ICE adopted the practice of calculating annually the vacation benefit obligation with a retroactive effect, through a qualified actuary, using the projected unit credit method (see note 24).

CNFL grants to employees annual, mandatory, inalienable vacations in accordance with the Collective Bargaining Agreement subscribed by CNFL and the Industrial Trade Union of Electrical and Telecommunications Workers. Vacation accrual is as follows:

- 1-4 years of service: 15 business days
- 5-9 years of service: 22 business days
- 10 years of service and thereafter: 30 business days.

CNFL follows the policy of accruing vacation days based on a study performed by the Human Resources Department and of establishing a provision for payment of employee vacations and related social security taxes.

The vacation accrual for RACSA is as follows:

- Employees with less than 10 years of service are entitled to two weeks of vacation for every 50 weeks of continuous service.
- Employees with 10 or more years of service are entitled to 30 days of vacation for every 50 weeks of continuous service.

CVCRSA books a monthly provision of 4.16% of pre-tax compensation to cover future disbursements related therewith.

(Continued)

(iii) *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.

The subsidiary CVCRSA is not required to pay the back-to-school bonus; accordingly, it does not book a provision related therewith.

(iv) *Occupational hazard insurance*

ICE Group 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 expenses for employer obligations" are liquidated on an ongoing basis as the obligation is extinguished as a result of use or payment of benefits.

(d) Provision for severance benefits and legal provisions

The amount which ICE Group's management estimates will be necessary to make payments to its employees for severance benefits and accrued litigation obligations, whose existence must be confirmed only through the occurrence of one or more uncertain future events that are not fully controlled by ICE Group, are recognized as "Provision for severance benefits and legal provisions".

ICE Group recognizes provisions when, and only when the following conditions are met:

a. There is a present obligation (legal or constructive) as a result of a past event

b. It is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c. 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.

The provision will be used only for the expenses from which it was originally recognized.

ICE Group recognizes in its financial statements the short- and long-term portion of these obligations as follows:

a. Short-term portion: obligations that are expected to be complied with in a relative short term, i.e. in a term of one year or less; therefore, the value of money over time is insignificant.

b. Long-term portion: obligations that are expected to be complied with within a term when the value of money over time is significant, i.e. obligations that will be settled in more than one year from the year-end.

The amount of the provisions is reviewed periodically to ensure coverage of any future obligations and is liquidated when the obligation is extinguished, i.e. when payment is made or no obligation is acquired.

The transactions subject to this provision policy are as follows:

(i) <u>Provision for severance benefits</u>

For permanent employees:

In Chapter XXXVII of the Personnel Statute, ICE establishes the provisions on the payment of severance benefits due to the termination of the agreements subscribed with personnel, based on seniority and the aforementioned regulations. The amount of the defined benefit obligation is calculated by a qualified actuary using the projected unit credit method. The provisions set forth in the Personnel Statute 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 each 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. Severance benefits shall be paid even if the worker immediately starts working for another employer.

c. The payment of severance benefits is calculated 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 to ICE is continuous (in working days) in respect of the date of incorporation to the public sector
- no dismissal occurred from the public institution where the employee worked before joining ICE
- no severance benefits were paid by the public institution where the employee worked.

d. The sum of the years recognized before and after the enforcement of the Employee Protection Law cannot exceed 24-year severance benefits corresponding to 40 years of continuous service at ICE.

For the subsidiary CNFL, the recognition of severance benefits is governed by the Collective Bargaining Agreement subscribed by the Industrial Trade Union of Electrical and Telecommunications Workers. Accordingly, workers with seniority terms of ten years or more that resign, are dismissed with the payment of severance benefits, or reach retirement age are entitled to severance benefits equivalent to a percentage of the calculation of the possible 20 salaries of severance benefits according to the number of years of service based on a seniority table established in the aforementioned bargaining agreement.

(Continued)

For the subsidiaries RACSA and CVCRSA, severance benefits are recognized to employees dismissed without just cause, considering approximately a 20-day salary for each year of continuous service, up to eight years, in accordance with Costa Rican legislation.

RACSA, CNFL, and CVCRSA follow the practice of making monthly transfers to the Employee Association of a percentage of salaries paid to member employees for management and custody. That percentage is 4.33% for CNFL and 5.33% for RACSA and CVCR.

The present value of that defined benefit obligation is calculated by ICE Group (except for CVCRSA) based on an actuarial study performed by a qualified actuary, using the projected unit credit method, starting in 2016, with retrospective effect (see note 2e). Specifically for ICE, the defined benefit plan is managed by the Guarantee and Savings Fund (separate vehicle), created by ICE in 1965, to which a monthly transfer equivalent to 3.5% of the permanent employees' monthly gross salary is made.

For project employees:

Project employees are hired to execute projects developed by ICE and are terminated once the work is completed. The accrual for the recognition of this benefit corresponds to 9% of the employees' monthly gross salary.

(ii) Litigation (legal provisions)

The probability of outflows must be estimated according to professional judgment and knowledge of events and circumstances related to the case being analyzed.

A legal provision is booked if the probability of existence of an obligation is greater than or equal to 50%. Additionally, ICE Group 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.

(Continued)

(iii) Restoration, dismantling and other (legal provisions)

Provisions for restoration and dismantling are made for all the expected costs for future restoration, renovation, and other obligations of sites where ICE Group's productive assets and projects are located to the extent that a legal or constructive obligation exists.

The provision for restoration and dismantling includes costs related to zone recovering problems, such as environmental remediation, soil conditioning, reforestation and maintenance of planted species, construction of access roads, people's mobilization, improvements to the infrastructure of facilities near the projects, such as schools, parks, etc., and other environmental and social commitments.

The best estimate of the costs of restoration and dismantling arising from the installation of an asset, discounted at their current net value, is provisioned and capitalized at the beginning of each project when the obligation to incur those costs is originated.

At the end of the asset's useful life, any change in the measurement of the obligation is recognized in profit or loss using either the cost or revaluation method.

(e) Equity

Development reserve

The "Development reserve" includes ICE's profit or loss at the end of each accounting period. Pursuant to Law No. 449, that reserve must be earmarked for development of electricity and telecom services.

The development reserve is adjusted for the effects of changes in accounting policies, corrections of prior period misstatements, and equity adjustments.

Asset revaluation reserve

The "Asset revaluation reserve" includes the amount resulting from application of revaluation indexes to adjust the value of operating assets used by ICE Group to provide basic or administrative services.

This reserve is adjusted by the net amount of partially or fully retired assets during the period and for reinstatement of depreciation of the revalued assets in the development reserve, due to the effects of the changes in accounting policies and corrections of prior period misstatements (see note 2(e))

Result of the valuation of financial instruments

This account reflects the result of valuation of derivative financial instruments acquired by ICE Group to hedge currency and interest rate risk exposure and available-for-sale investments.

Actuarial gains and losses

As indicated in note 2(e), ICE and its subsidiaries CNFL and RACSA follow the policy of calculating the amount of obligations arising from defined benefit plans (severance benefits) based on an actuarial study using the projected unit credit method. For ICE, vacations are also covered by that policy.

The “Actuarial gains and losses” equity account reflects the changes in assumptions used in the calculation of the present value of the obligations arising from the aforementioned post-employment employee benefits, such as demographic (mortality, turnover rates, disability, and premature retirements) and financial (discount rate used) assumptions.

Surplus or deficit

The result of eliminating “Income” and “Expenses” nominal accounts at year-end is booked under “Surplus or deficit”.

“Surplus or deficit” is valued at profit or loss for the year.

ICE’s “Surplus or deficit” and its subsidiaries’ net profit or loss at year-end are liquidated by transferring their balance to the “Development reserve” and “Retained earnings” equity accounts, respectively.

Legal reserve

Pursuant to current regulations, CNFL and CVCRSA must appropriate 5% of each year’s net earnings to a legal reserve, up to 20% of outstanding share capital.

(Continued)

In accordance with Law No. 3293 dated June 18, 1964, RACSA books an equity reserve equivalent to 25% of pretax income.

Project development reserve

At Ordinary Shareholders Meeting No. 97 held on April 30, 2001, 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.

Forest development reserve

RACSA books as “Forest development reserve” the cost of acquisition of forestry projects plus all costs incurred in their development. The purpose of the reserve is to cover any potential losses associated with future use of investments in forestry agreements.

Restricted retained earnings

Corresponds to retained earnings of a subsidiary that the shareholders declared restricted.

Retained earnings

Profit or loss of the subsidiaries of ICE at each accounting year-end is booked as “Retained earnings”. Retained earnings are adjusted for the effects of changes in accounting policies, corrections of prior period misstatements, and equity adjustments.

(f) Memoranda accounts

Debit or credit memoranda accounts include contingent rights or obligations, goods and securities given or received in custody, consignment, for management, or as a guaranty for any operation, or the balancing entry of the respective debit or credit memoranda account for contingent rights or obligations, goods and securities given and/or received in custody, consignment, for management, or as a guaranty for any operation affecting ICE Group. Accordingly, these memoranda accounts are disclosed for informational purposes only.

Memoranda accounts are recognized at face value.

Memoranda accounts are offset, partially or in full, when contingent rights or obligations related to the operation are extinguished.

(Continued)

(g) Operating income

Income from services

"Income from services" includes income earned on the sale of electricity and telecom services and other supplementary business, both locally and abroad.

"Income from services" is booked for the amount of the billings.

Income is recognized when persuasive evidence exists (usually in the form of a formal document) that the significant risks and rewards of services rendered are transferred to the buyer, it is probable that the economic benefits derived from the transaction will be received, and costs incurred and refunds made can be measured reliably. ICE Group may not be held liable for management of the services rendered.

Income from electricity and telecom services is accounted for through billing cycles. The receipt issued for these services includes the billing cycle that covers the period invoiced to the customer. ICE will book income for the aforementioned services according to the date specified on the receipt.

Income from telecom services is recognized for individual services rendered to customers (non-package services) or service plans or packages according to the commercial business strategy.

Income from services arising from the sale of plans or packages offered to customers is booked separately according to each type of service included in the plan or package.

Income from post-paid services arising from plans or packages or individual services (non-package services) is booked 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 Group is recognized as income. Income from the sale of terminals is recognized at the amount established in the offered plans or packages when the terminal is transferred to the purchaser.

Revenue from the rendering of services is recognized when the following criteria are met:

a. The amount of revenue can be measured reliably.

b. It is probable that the economic benefits associated with the transaction will flow to ICE Group.

c. Services are rendered in the reporting period, in accordance with the billing cycle.

d. The level of realization of the transaction can be measured reliably.

e. Costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(h) Operating costs

Operation and maintenance costs

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

Operation and maintenance costs of leased equipment include the cost of leasing, operating, and maintaining productive assets owned by third parties and used to provide electricity and telecom services.

Operation and maintenance costs include the realized cost of fuels for thermal power generation, previously recognized as “Prepaid expenses”, according to the systematic allocation established by ICE Group, based on the term indicated by the regulatory authority to recover such costs through the rate.

Operation and maintenance costs of equipment under finance leases includes the realized cost of fuels for thermal power generation related to plants owned by third parties, according to the systematic allocation established by ICE Group, based on the term indicated by the regulatory authority to recover such costs through the rate.

Operation and maintenance costs are recognized at historical cost.

Lease agreements

ICE Group follows the policy of classifying leases as operating leases and finance leases pursuant to Ministry of the Presidency's Decree No. 34334 issued on February 28, 2008. The decree defines the general conditions to be included in finance and operating lease agreements subscribed by member entities of ICE Group, which should comply with Ministry of Finance's Executive Decree No. 32876 of December 6, 2005 and standards, procedures, and principles set forth in the Government Procurement Act and Regulations thereto.

Operating lease payments are recognized in the consolidated statement of income and expenses on a straight-line basis over the term of the lease in accordance with the agreement.

Depreciation of operating assets

"Depreciation of operating assets" corresponds to the portion resulting from systematic allocation of the depreciable amount of the cost of operating assets owned by ICE Group, as well as the net cost of operating assets that have been partially or fully retired during the period.

Costs arising from depreciation of operating assets are booked based on systematic application of the depreciation method agreed for each group of assets. Depreciation is calculated using the straight-line method. The depreciable amount of operating assets represents the cost of acquiring or constructing the asset, plus any incidental costs.

Depreciation of operating assets begins when the work under construction is acquired or capitalized and the asset is in working condition.

Supplemental services and purchases

Costs incurred by ICE Group to acquire electricity and telecom services from third parties are booked as "Supplemental services and purchases".

Electricity purchases include the realized additional cost of the rate mismatch previously recognized as "Prepaid expenses" by acquiring electricity services from third parties, related to the purchase of energy from independent power producers and the import of energy.

Supplemental services and purchases are booked at the face value of the payment document.

(Continued)

Production management

"Production management" includes costs incurred by the supporting areas of ICE Group's segments for the normal development of their technical and administrative management activities.

Production management costs are recognized at historical cost.

Technical service centers-operations

Costs incurred by specialized technical operations units that provide services to other units of the same segment to which they belong, other ICE Group segments, and external entities, are recognized as "Technical service centers-operations".

These centers book their operations at the historical cost of providing the services.

Costs related to technical service centers-operations are allocated to customers based on the units of production method.

(i) Operating expenses

Administrative expenses

"Administrative expenses" correspond to expenses incurred by the Corporate segment to promote and ensure efficient management and compliance with ICE Group's objectives and targets, as well as the normal development of administrative activities.

Administrative expenses are booked at historical cost.

"Administrative expenses" are distributed among the subsegments comprising each segment using cost drivers in accordance with the methodology designed for such purposes.

Marketing expenses

Marketing expenses include the following:

- Expenses incurred by ICE Group to sell electricity and telecom services and other technical services provided to customers. Marketing expenses include design of services, customer care, and recovery of the economic benefits generated by those services.

(Continued)

- The cost of mobile terminals and other devices required to render electricity and telecom services.

- The realized cost of mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans, according to the systematic allocation based on the term of the plan.

- The portion of the mobile terminals sold for a discounted price under post-paid mobile telephony plans that corresponds to the income from terminals recognized at the time of the sale.

- The cost of mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans that is pending amortization in the event that the service is canceled or the plan is changed.

"Marketing expenses" are booked at historical cost.

<u>Preliminary studies</u>

"Preliminary studies" include expenses incurred in the preliminary phases of projects for which execution is under analysis. This item includes identification and pre-feasibility studies for projects or works to be constructed.

"Preliminary studies" are booked at historical cost.

<u>Pre-investment studies</u>

"Pre-investment studies" include the following:

- Expenses incurred in the pre-investment phase of projects for which execution is under analysis. This item includes feasibility studies for projects or works to be built.

- Prior mitigation and social compensation costs incurred in the feasibility phase of projects or works with no duly prepared and approved Environmental Management Plan correspond to a strategic rapprochement with interest groups that will be affected in the construction phase.

"Pre-investment studies" are booked at historical cost.

<u>Other operating expenses</u>

"Other operating expenses" include the following:

(Continued)

- Other expenses incurred by ICE Group to ensure the quality of the construction and operation of works owned by third parties are recognized as "Other operating expenses". 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[3] and were not included in the "Baseline" planned and controlled by ICE Group.

Other operating expenses are recognized at historical cost.

(j) Other income

Finance income

"Finance income" corresponds to income arising from activities other than normal operations, including returns on securities or cash balances in financial entities, and credits granted to third parties under agreements.

"Finance income" is booked for the amount specified in documentation underlying the transaction.

[3] 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.

Income from investments in other companies

Returns on investments in companies other than subsidiaries, as declared by those companies, are recognized as “Income from investments in other companies”.

“Income from investments in other companies” is booked for the amount specified in documentation underlying the transaction.

Other income

“Other income” includes the following:

- Income arising from services provided to third parties that are not part of ICE Group’s ordinary course of business.

- Assets that are transferred by customers to ICE Group as donations for purposes related to electricity and telecom activities. Such assets may comprise property, machinery, equipment, or non-reimbursable cash.

- Realized government grants under which ICE Group receives resources (cash or assets), based on the established systematic allocation for the main asset associated to the grant.

Other income is booked at the amount specified in documentation underlying the transaction.

Foreign exchange differences

Gains on fluctuations of foreign currencies that are required to settle or adjust monetary items (both assets and liabilities) in foreign currency are recognized as “Finance income” in profit or loss for the period.

(k) Other expenses

Finance expenses

“Finance expenses” include the following:

- Expenses arising from loans, placement of securities (bonds), investments, or any other obligation used for ICE Group’s management purposes.

- The effect of the variation of the *"Valuation of derivative financial instruments"* liability line item, when instruments are not classified as hedge accounting and are, therefore, recognized at fair value through profit or loss or in accordance with the measurement of the instrument's efficiency.

Interest collected by ICE Group on subloans must be deducted from interest payments made to the bank, except for subloans for which the principal has been paid with ICE's own resources, in which case interest is recognized as income for the period.

"Finance expenses" are recognized in the period, unless they are directly attributable to the acquisition or construction of ICE Group's productive assets, in which case they are capitalized as costs of the assets.

"Finance expenses" are booked at historical cost.

Other expenses

"Other expenses" include expenses incurred to provide services other than those rendered in the entity's normal course of business. "Other expenses" are booked at historical cost.

Foreign exchange differences

Losses on fluctuations of foreign currencies that are required to settle or adjust monetary items (both assets and liabilities) in foreign currency are recognized as "Finance expense" in profit or loss for the period.

(Continued)

(In millions of colones)

Note 4. Operating assets

		As of December 31,	
		2016	**2015 (Restated) ***
Cost:			
Operating assets	¢	6,519,978	3,900,872
Operating assets and other operating assets under finance leases		844,949	31,211
Other operating assets		528,234	439,803
Total operating assets - cost		**7,893,161**	**4,371,886**
Revaluation:			
Operating assets		-	2,751,957
Operating assets and other operating assets under finance leases		-	4,822
Other operating assets		-	65,402
Total operating assets - revaluation		-	**2,822,181**
Total cost - revaluation	¢	**7,893,161**	**7,194,067**
Accumulated depreciation:			
Cost:	¢		
Operating assets		3,254,884	1,491,673
Operating assets and other operating assets under finance leases		6,775	3,421
Other operating assets		340,734	284,847
Total accumulated depreciation of operating assets - cost		**3,602,393**	**1,779,941**
Revaluation:			
Operating assets		-	1,704,639
Operating assets and other operating assets under finance leases		-	415
Other operating assets		-	35,078
Total accumulated depreciation of operating assets - revaluation		-	**1,740,132**
Total accumulated depreciation - cost and revaluation	¢	**3,602,393**	**3,520,073**
Operating assets, net	¢	**4,290,768**	**3,673,994**

(*) See note 27.

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Operating assets at cost:

As of December 31, 2016, operating assets at cost are as follows:

Cost		Adjusted cost as of January 1, 2016	Additions and capitalizations	Disposals	Transfers	Alignment adjustments	As of December 31, 2016
Operating assets:							
Electricity:							
Land	¢	103,107	3,522	(104)	13,792	(24,882)	95,435
Buldings		61,813	746	(194)	9,583	(21,126)	50,822
Hydroelectric power generation (1)		2,297,643	46,225	(2,947)	6,992	(81,660)	2,266,253
Thermal power generation		182,141	787	(13,977)	(582)	-	168,369
Geothermal power generation		528,897	150	-	(1,196)	-	527,851
Wind power generation		11,702	-	-	778	-	12,480
Solar power generation		12,743	93	-	(721)	-	12,115
Micro hydro power generation		181	-	(528)	-	-	(347)
Substations		431,854	17,654	(5,179)	(14,210)	(14,870)	415,249
Transmission lines		297,859	32,249	(1)	(162)	(2,000)	327,945
Distribution circuits		793,239	18,430	(4,841)	2,319	(144,379)	664,768
Street lighting		41,781	1,400	(231)	187	(13,731)	29,406
Communication, control and infrastructure equipment		92,440	8,590	(86)	2,704	(34,375)	69,273
General equipment		26,220	2,178	(1,399)	58	-	27,057
Other		1,138	-	-	(1,138)	-	-
Telecom:							
Land		16,189	-	(23)	10,292	-	26,458
Buldings		768	530	(6)	134,864	-	136,156
Transport		662,388	27,408	(922)	(6,740)	-	682,134
Access (2)		526,654	25,522	(2,732)	(58,972)	-	490,472
Civil and electromechanical		235,831	11,428	-	(60,960)	-	186,299
Platforms		211,625	9,655	(4,332)	3,947	-	220,895
Communication equipment		109,030	630	(3,867)	-	-	105,793
General equipment		5,289	116	(310)	-	-	5,095
Other		2,298	-	-	(2,298)	-	-
Subtotal operating assets	**¢**	**6,652,829**	**207,313**	**(41,679)**	**38,538**	**(337,023)**	**6,519,978**
Other operating assets under finance leases: (3)							
Land	¢	600	-	-	5,706	-	6,306
Hydroelectric power generation		-	795,298	-	-	-	795,298
Access		2,593	7,351	-	(57)	-	9,887
Land		1,348	-	-	-	-	1,348
Buildings		29,340	-	-	600	-	29,940
Furniture and equipment		2,152	43	-	(25)	-	2,170
Subtotal operating assets and assets under finance leases	**¢**	**36,033**	**802,692**	**-**	**6,224**	**-**	**844,949**
Other operating assets	¢	505,205	25,377	(14,329)	11,981	-	528,234
Subtotal Other operating assets	**¢**	**505,205**	**25,377**	**(14,329)**	**11,981**	**-**	**528,234**
Total	**¢**	**7,194,067**	**1,035,382**	**(56,008)**	**56,743**	**(337,023)**	**7,893,161**

(In millions of colones)

As of December 31, 2015, operating assets at cost are as follows:

Cost		As of January 1, 2015 (Restated) *	Additions and capitalizations	Disposals	Transfers	As of December 31, 2015 (Restated) *
Operating assets:						
Electricity:						
Hydroelectric power generation (1)	¢	828,899	154,328	(931)	(968)	981,328
Thermal power generation		83,952	97	(162)	-	83,887
Geothermal power generation		175,333	4,183	(115)	-	179,401
Wind power generation		7,425	-	(397)	-	7,028
Solar power generation		10,032	345	-	-	10,377
Micro hydro power generation		166	-	-	-	166
Substations		216,847	19,771	(561)	-	236,057
Transmission lines		157,331	39,774	-	-	197,105
Distribution circuits		337,275	47,056	(4,276)	-	380,055
Street lighting		19,893	3,501	(110)	(2)	23,282
Communication, control and infrastructure equipment		44,727	6,477	(67)	-	51,137
General equipment		26,522	1,315	(1,617)	-	26,220
Other		55,076	2,338	-	(4)	57,410
Telecom:						
Transport		642,186	27,644	(7,442)	-	662,388
Access (2)		488,964	44,433	(6,736)	(7)	526,654
Civil and electromechanical		229,461	6,399	(29)	-	235,831
Platforms		179,839	16,781	(2,014)	17,019	211,625
Telecom equipment		26,815	99	(2,253)	-	24,661
General equipment		5,275	20	(6)	-	5,289
Other		971	-	-	-	971
Subtotal operating assets		**3,536,989**	**374,561**	**(26,716)**	**16,038**	**3,900,872**
Other operating assets under finance leases: (3)						
Access	¢	-	2,593	-	-	2,593
Land		1,151	-	-	-	1,151
Buildings		25,315	-	-	-	25,315
Furniture and equipment		1,166	847	-	139	2,152
Subtotal operating assets and other operating assets under finance leases	¢	**27,632**	**3,440**	**-**	**139**	**31,211**
Other operating assets	¢	435,357	47,767	(27,375)	(15,946)	439,803
Subtotal other operating assets	¢	**435,357**	**47,767**	**(27,375)**	**(15,946)**	**439,803**
Total	¢	**3,999,978**	**425,768**	**(54,091)**	**231**	**4,371,886**

(*) See note 27.

Adjusted cost:

As indicated in note 2-e), starting January 1, 2016, ICE adopts the adjusted cost accounting policy as the new cost of operating assets. This cost comprises the historical cost and the revaluation cost integrated into a single value based on the fact that such assets are associated with operations subject to rate regulation. Before 2016, ICE's operating assets were booked at cost, except for all of the Electricity Segment's operating assets and all ICE's land and buildings, which up to December 2015 were subject to annual revaluation using established indexes as indicated in note 2-e). As a result of the adoption of this accounting policy, the revaluation reserve is reversed by transferring it to the Development reserve and retained earnings. The reversion amounted to ¢1,086,323.

ICE Group's adoption of the adjusted cost results in the elimination of the revaluation of related parties, which is included as an alignment adjustment in the operating assets note (see note 2 (a)).

(1) Hydroelectric power generation:

Hydroelectric power generation includes additions in the amount of ¢46,177, mainly related to additions and capitalizations of the Cachí Hydroelectric Power Project, in the hydraulic pumping, engine room, and forced pumping components.

(2) Access:

Access includes an amount of ¢25,522 mainly related to additions and capitalizations of components, mobile services, channeling of the access fiber network, primary and secondary networks, and fiber optic, among other.

(3) Operating assets and other operating assets under lease agreements:

Operating assets and other operating assets under lease agreements include the value of the productive assets under lease agreements subscribed under finance lease agreements. As of December 31, 2016, certain subscribed finance lease agreements are as follows:

Electricity Segment (hydroelectric power generation):

Reventazón Hydroelectric Power Plant Lease Agreement:

- The agreement was subscribed by the UNO P.H. Reventazón Trust (the lessor) and ICE (the lessee) for a minimum term of 17 years. Half-yearly payments are based on the amount paid by the UNO P.H. Reventazón Trust for the debt with the creditor banks. In 2016, the half-yearly payment amounts to ¢14,070 (US$23 million). The agreement, classified as a finance lease agreement, is effective starting November 15, 2016, as the construction of the works was completed at the end of 2016.

The aforementioned lease agreement derives from the terms and conditions established in the trust agreement called "UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement", subscribed in May 2013 by ICE and Scotiabank de Costa Rica, whereby ICE acts as the Trustor and Main Beneficiary, Banco Scotiabank as Trustee, and the individuals identified in each notification for appointment of secondary beneficiaries as such.

The main clauses of the UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement are as follows:

a. Develop, continue the construction, lease, operate, and offer maintenance to the Reventazón Hydroelectric Power Project and subscribe the necessary financing to achieve those goals.
b. Create autonomous and independent equity to secure and guarantee compliance with the Trust's obligations.
c. Organize the Guarantee Trust to which the Trust Equity will be transferred, whereby this Trust will act as the trustor, the secured creditors as the beneficiaries, and this Trust's trustee as the trustee. The trustee of the Guarantee Trust is Banco Scotiabank.
d. Comply with the Trust's obligations established in the transaction documents, including making payments to secured creditors that granted loans or invested in securities for the development, financing, construction, lease, operation, and maintenance of the Reventazón Hydroelectric Power Plant.
e. Once (i) the objectives of this Trust have been met, (ii) the obligations established in the transaction documents have been fulfilled, and (iii) the trustee receives written authorization from the representative of the secured creditors; transfer the Trust Equity to the Trustor, who also acts as the Main Beneficiary.
f. Pursue any other objective or purpose derived from the nature of this Trust Agreement and the transaction documents that does not infringe good faith in business or violates the relevant legislation.

(Continued)

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

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

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

As indicated in note 6, the execution of the Reventazón Hydroelectric Power Plant is an investment made by ICE and the trust jointly. Upon completion of the works in 2016, ICE included under "Operating assets under lease agreements" the amount of ¢800,658, which is the total amount of the construction cost. This amount includes the cost of the investment directly made by ICE and the trust in the amount of ¢340,420 and ¢460,207, respectively. The latter amount of ¢460,207 is the reference amount on which the lease agreement was created. Since the trust's investment in that project was financed through loans denominated in colones and U.S. dollars, the installment of the aforementioned lease agreement includes a portion in local currency and another portion in U.S. dollars. Similarly, the obligation with the trust, which is related its investment, is broken down into those two currencies as indicated in note 21.

Telecom Segment (buildings):

Telecommunications Tower Lease Agreement:

On January 29, 2010, Banco de Costa Rica (BCR) and ICE subscribed the “ICE-BCR Real Estate Securitization Trust”, whereby BCR in its capacity as trustee commits to obtain the financial resources to acquire the building known as Centro Empresarial La Sabana. The trust would obtain such financing from the sale of securities called “Securities/Certificates of the ICE-BCR Real Estate Securitization Trust”.

The purpose of this trust is to provide ICE with a comprehensive physical space solution to develop its activities. The terms and conditions of the trust include as one of the trust’s purposes leasing the equipped building to ICE. As a result, the irrevocable lease agreement was subscribed with a purchase option to buy that property, called Centro Empresarial La Sabana, through which the trust leases the property to ICE for a 12-year term, at the end of which ICE may exercise the purchase option, with a monthly lease installment based on the variable established in the aforementioned lease agreement. During 2016, the monthly installment ranges between ¢201 million and ¢217 million (2015: ¢215 million and ¢231 millions).

The funds received by the trust from the lease shall be used to pay the principal and returns on the securities placed in the securities market, as well as private placements and funds obtained from local and international bank loans.

RANGE-Telecommunications Lease Agreement (Access):

In January 2014, Banco de Costa Rica (BCR) and ICE subscribed the ICE-RANGE/BCR) Trust Agreement to defray the costs of design, construction, and maintenance of the New Generation Access Network (*Red Acceso de Nueva Generación* (RANGE)), including works associated with the installation of equipment, channeling of civil and electromechanic works, pipeline construction, cable laying, and fiber optic installations. This trust agreement gave rise to the lease agreement subscribed by ICE and the trust relating the works to be developed by the trust. The lease is for an 18-year term, starting in May 2016, with monthly payments based on the formula established in the Addenda to the lease agreement. During 2016, the monthly lease payment ranged between ¢254 million and ¢255 million, with the first payment made in 2016. The lease was classified as a finance lease due to its characteristics.

The lease payment made by the lessee to the lessor shall be denominated in colones, Costa Rican currency, in advance on the first day of each month, and calculated at the beginning of each year using the Net Present Value (NPV) of all of the expenditures presented for the next 12 months, which are necessary for the expenditures projected for the next 12 months. The result obtained from bringing the expenditures projected for the 12 months of each year to the present value will be used to calculate the fixed monthly payment for that year. Payments will be made through a bank deposit in a checking account as indicated by the lessor.

Other operating assets

Starting 2016, non-operating assets are reclassified to other operating assets according to best accounting practices. The amount transferred is for a total of ¢8,442, corresponding to land and buildings amounting to ¢3,801 and ¢4,642, respectively (see note 2(e)).

(In millions of colones)

Accumulated depreciation at cost

As of December 31, 2016, accumulated depreciation of operating assets at cost is as follows:

Depreciation - cost		Adjusted cost as of January 1, 2016	Depreciation for the year	Disposals	Transfers	Alignment adjustments	As of December 31, 2016
Operating assets:							
Electricity:							
Buildings	¢	13,534	1,050	(1)	3,287	(12,941)	4,929
Hydroelectric power generation (1)		985,201	39,710	(2,250)	6,306	(34,952)	994,015
Thermal power generation		93,672	3,376	(9,385)	456	-	88,119
Geothermal power generation		229,963	40,899	-	(640)	-	270,222
Wind power generation		6,748	2,157	-	494	-	9,399
Solar power generation		2,921	2,100	-	(140)	-	4,881
Micro hydro power generation		38	4	-	-	-	42
Substations		196,586	17,127	(504)	(10,469)	(9,579)	193,161
Transmission lines		103,859	6,737	-	226	(973)	109,849
Distribution circuits		406,212	14,006	(3,431)	4,961	(91,525)	330,223
Street lighting		19,052	926	(144)	423	(9,001)	11,256
Communication, control and infrastructure equipment		44,768	4,034	-	2,193	(25,484)	25,511
General equipment		16,407	-	-	(138)	-	16,269
Other		5,050	-	-	-	-	5,050
Telecom:							
Buildings		-	1,902	-	63,484	-	65,386
Transport		428,063	59,936	(773)	(1,492)	-	485,734
Access (2)		286,110	47,229	(2,132)	(12,856)	-	318,351
Civil and electromechanical		219,996	4,105	-	(65,132)	-	158,969
Platforms		110,372	28,856	(3,606)	135	-	135,757
Communication equipment		24,004	-	-	-	-	24,004
General equipment		3,448	-	-	-	-	3,448
Other		309	-	-	-	-	309
Subtotal operating assets	**¢**	**3,196,313**	**274,154**	**(22,226)**	**(8,902)**	**(184,455)**	**3,254,884**
Operating assets and other operating assets under finance leases: (3)							
Hydroelectric power generation	¢	-	976	-	-	-	976
Access		-	1,104	-	-	-	1,104
Buildings		2,786	-	-	-	-	2,786
Furniture and equipment		1,050	763	-	96	-	1,909
Subtotal operating assets and operating assets under finance leases	**¢**	**3,836**	**2,843**	**-**	**96**	**-**	**6,775**
Other operating assets	**¢**	319,924	26,184	(10,526)	5,152	-	340,734
Subtotal other operating assets	**¢**	**319,924**	**26,184**	**(10,526)**	**5,152**	**-**	**340,734**
Total	**¢**	**3,520,073**	**303,181**	**(32,752)**	**(3,654)**	**(184,455)**	**3,602,393**

(In millions of colones)

As of December 31, 2015, accumulated depreciation of operating assets at cost is as follows:

Depreciation - cost		As of January 1, 2015 (Restated) *	Depreciation for the year	Disposals	Transfers	As of December 31, 2015 (Restated) *
Operating assets:						
Electricity:						
Hydroelectric power generation (1)	¢	118,187	22,567	(171)	(386)	140,197
Thermal power generation		26,644	4,038	(111)	-	30,571
Geothermal power generation		52,189	6,557	(34)	(1)	58,711
Wind power generation		3,740	452	(217)	-	3,975
Solar power generation		1,585	467	-	-	2,052
Micro hydro power generation		29	5	-	-	34
Substations		48,040	9,263	(249)	-	57,054
Transmission lines		22,948	5,376	-	-	28,324
Distribution circuits		106,350	17,551	(876)	-	123,025
Street lighting		5,137	814	(52)	-	5,899
Communication, control and infrastructure equipment		11,981	1,611	(25)	-	13,567
General equipment		15,315	2,071	(1,145)	166	16,407
Other		3,970	1,069	-	11	5,050
Telecom:						
Transport		387,449	40,587	(6)	-	428,030
Access (2)		248,028	47,534	(9,493)	41	286,110
Civil and electromechanical		142,411	12,171	(7)	(41)	154,534
Platforms		76,144	30,011	(933)	5,150	110,372
Communication equipment		25,687	567	(2,252)	2	24,004
General equipment		3,001	455	(6)	(2)	3,448
Other		285	24	-	-	309
Subtotal operating assets		**1,299,120**	**203,190**	**(15,577)**	**4,940**	**1,491,673**
Other operating assets and operating assets under finance leases: (3)						
Buildings	¢	2,280	506	-	-	2,786
Furniture and equipment		500	135	-	-	635
Subtotal operating assets and operating assets under finance leases	¢	**2,780**	**641**	**-**	**-**	**3,421**
Other operating assets	¢	286,820	23,728	(18,035)	(7,666)	284,847
Subtotal other operating assets	¢	**286,820**	**23,728**	**(18,035)**	**(7,666)**	**284,847**
Total	¢	**1,588,720**	**227,559**	**(33,612)**	**(2,726)**	**1,779,941**

(*) See note 27.

(In millions of colones)

Cost:

As indicated in note 2(e), on January 1, 2016, ICE adopts the adjusted cost accounting policy as the new cost of the operating assets. As a result, ICE regrouped in a single account the accumulated depreciation of historical costs and accumulated depreciation of revaluation.

During 2015, a change was made in the depreciation method of some categories of other operating assets from the straight-line method to depreciation based on use. The change was made based on a technical analysis prepared by the Engineering and Construction Business unit of the Electricity segment, considering those variables that best express the expected consumption pattern (hours, kilometers, days) and nature of the assets (see note 2(e)(*i*)).

Starting January 1, 2016, with the adoption of the component accounting, the useful lives of elements of operating assets were reviewed, considering the disaggregation by components.

Accordingly, in 2016, assets are depreciated using the useful lives as follows:

	Useful life (in years)
Buildings	40 to 50
Plant, machinery and equipment for ICE Electricity	30 to 60
Plant, machinery and equipment for ICE Telecom	2 to 60
Plant, machinery and equipment for public lighting	10 to 30
Machinery and equipment	4 to 20

In 2015, assets were depreciated using the useful lives as follows:

	Useful life (in years)
Buildings	40 to 50
Plant, machinery and equipment for ICE Electricity	20 to 40
Plant, machinery and equipment for ICE Telecom	3 to 40
Machinery and equipment	1 to 20

(In millions of colones)

Revalued operating assets

As of December 31, 2015, revalued operating assets are as follows:

Revaluation		As of January 1, 2015	Revaluation for the year	Disposals	Transfers	As of December 31, 2015
Operating assets:						
Electricity:						
Hydroelectric power generation	¢	1,397,450	(30,019)	(4,589)	(4,065)	1,358,777
Thermal power generation		101,142	(2,566)	(25)	-	98,551
Geothermal power generation		360,774	(6,636)	(198)	-	353,940
Wind power generation		5,856	(185)	(269)	-	5,402
Solar power generation		2,454	(88)	-	-	2,366
Micro hydro power generation		17	(3)	-	-	14
Substations		204,986	(5,059)	(1,102)	-	198,825
Transmission lines		110,558	(2,218)	-	-	108,340
Distribution lines		428,898	(9,070)	(4,985)	-	414,843
Street lighting		19,061	(430)	(134)	2	18,499
Communication, control and infrastructure equipment		43,708	(981)	(126)	-	42,601
Other		47,979	(833)	-	-	47,146
Telecom:						
Civil and electromechanical		100,355	-	-	-	100,355
Communication equipment		7,632	-	(7,634)	2	-
Other		2,298	-	-	-	2,298
Subtotal operating assets	**¢**	**2,833,168**	**(58,088)**	**(19,062)**	**(4,061)**	**2,751,957**
Operating assets and other operating assets under finance leases: (3)						
Lands	¢	196	-	-	-	196
Buildings		4,626	-	-	-	4,626
Subtotal operating assets and other assets under finance leases	**¢**	**4,822**	**-**	**-**	**-**	**4,822**
Other operating assets	¢	61,250	98	(3)	4,057	65,402
Subtotal other operating assets	**¢**	**61,250**	**98**	**(3)**	**4,057**	**65,402**
Total	**¢**	**2,899,240**	**(57,990)**	**(19,065)**	**(4)**	**2,822,181**

(Continued)

(In millions of colones)

As of December 31, 2015, indexes used in the revaluation of the cost of each group of assets subject to revaluation, by category, were as follows:

Operating assets	As of December 31, 2015
Electricity	
Hydroelectric power generation	(0,0149)
Thermal power generation	(0,0139)
Substations	(0.0130)
Transmission lines	(0,0099)
Distribution lines	(0,0130)
Street lighting	(0,0145)
Geothermal power generation	(0,0123)
Wind power generation	(0,0147)
Solar power generation	(0,0104)
Micro hydro power generation	(0,0149)
Communication and control equipment	(0,0115)
Electricity and Telecom	
Civil works	0.802857
Land	0.802857

In 2015, the revaluation policy was applied to the operating assets of the Electricity segment and the operating assets corresponding to land and civil works of ICE as a whole. Starting from the application of the adjusted cost in 2016, revaluation and depreciation balances resulting from the 2015 revaluation are included as part of cost and cost depreciation.

(Continued)

(In millions of colones)

The revaluation indexes used by the subsidiary CNFL are as follows:

Operating assets	As of December 31, 2015
CNFL	
Hydroelectric power generation	(0,009894)
Distribution lines	(0,009894)
Transmission lines	(0,008492)
Substations	(0,010733)
Street lighting	(0,010523)
Land	(0,008006)
Land improvements	(0,008006)
Buildings	(0,008006)
General equipment	(0,008006)
Service connections	(0,013669)
Communication systems	(0,009999)
RACSA and Cable Visión: (*)	

(*) Not revalued in 2015 as they are considered part of the Telecom segment.

(In millions of colones)

Accumulated depreciation of revalued operating assets

As of December 31, 2015, accumulated depreciation of revalued operating assets is as follows:

Depreciation-Revaluation		As of January 1, 2015 (Restated)*	Revaluation	Depreciation	Disposals	Transfers	As of December 31, 2015 (Restated) *
Operating assets:							
Electricity:							
Hydroelectric power generation	¢	827,482	(13,410)	35,206	(3,148)	(2,428)	843,702
Thermal power generation		61,777	(1,223)	2,597	(19)	-	63,132
Geothermal power generation		161,929	(2,634)	12,045	(89)	-	171,251
Wind power generation		2,973	(93)	327	(155)	-	3,052
Solar power generation		781	(18)	108	-	-	871
Micro hydro power generation		5	-	1	-	-	6
Substations		135,514	(2,134)	6,992	(842)	1	139,531
Transmission lines		73,671	(527)	2,392	-	-	75,536
Distribution lines		275,527	(4,451)	15,588	(3,476)	-	283,188
Street lighting		13,035	(205)	422	(98)	-	13,154
Communication, control and infrastructure equipment		31,741	(425)	860	(95)	-	32,081
Other		11,921	(122)	524	-	19	12,342
Telecom:							
Civil and electromechanical		70,656	-	(5,194)	-	-	65,462
Communication equipment		7,631	(6,718)	-	(913)	-	-
Other		1,282	-	49	-	-	1,331
Subtotal operating assets	**¢**	**1,675,925**	**(31,960)**	**71,917**	**(8,835)**	**(2,408)**	**1,704,639**
Operating assets and other operating assets under finance leases: (3)							
Buildings	¢	321	-	94	-	-	415
Subtotal operating assets and other operating assets under finance leases	**¢**	**321**	**-**	**94**	**-**	**-**	**415**
Other operating assets:	**¢**	31,574	-	1,077	-	2,427	35,078
Subtotal other operating assets	**¢**	**31,574**	**-**	**1,077**	**-**	**2,427**	**35,078**
Total	**¢**	**1,707,820**	**(31,960)**	**73,088**	**(8,835)**	**19**	**1,740,132**

(*) See note 27.

(In millions of colones)

Note 5. Construction work in progress

Construction work in progress is as follows:

Project		December 31, 2016	December 31, 2015 (Restated)*
Las Pailas II Geothermal Power Project (1)	¢	90,883	58,571
Borinquén Geothermal Power Project (2)		25,760	22,815
Cóbano Transmission Line (3)		20,428	16,637
Anillo Sur Transmission Line (4)		18,293	16,030
Advanced mobile evolution (5)		16,604	630
Installation and management of real estate (6)		14,256	2,976
Jacó Transmission Line (7)		12,865	9,640
New Power Control Center (8)		12,863	11,336
Advanced mobile services (9)		11,661	2,764
Coyol Transmission Line (10)		11,604	10,614
Acquisition of assets - senior management (11)		11,329	2,365
Management of network elements (12)		11,286	8,517
Reinforcement of distribution system (13)		10,738	3,379
Ongoing quality improvement (distribution)		5,680	4,839
Ventanas Plant Project		5,585	3,559
Capillary network		5,188	4,312
Modernization of lighting, testing		4,954	737
Improvements to electricity transport network		4,276	2,129
Business customer services		4,091	1,782
Improvements to Telecom transport network		4,067	7,659
FONATEL		3,567	-
Cariblanco - Trapiche Transmission Line		3,363	6,406
Network development		2,307	2,365
La Carpio deviation		2,154	-
Modernization of the IPTV platform		1,910	11
Basic engineering studies		1,888	1,226
Advanced internet network security		1,676	195
Technical services for distribution projects		1,308	1,079
Advanced connectivity fiber optic		1,278	1,759
Ciudad Luz		1,210	413
Infrastructure maintenance and soundproofing		1,174	1,123
Construction and repair of civil and metallic works		1,101	1,108
Reventazón Hydroelectric Power Project		-	137,368
Sundry projects		18,628	63,660
Less: Elimination of internal consumption of services **		(1,639)	(3,048)
Total	**¢**	**342,336**	**404,956**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

The nature and main transactions of the aforementioned construction work in progress are described as follows:

(1) Las Pailas II Geothermal Power Project

The balance reflected corresponds to the cost of several construction works required to build the geothermal power plant with a power output of 55 MW. The purpose of the project is to supplement the power output of Las Pailas I Power Plant. The project is located in Guanacaste, on the foothills of Rincón de la Vieja Volcano.

(2) Borinquen Geothermal Power Project

This project is located on the Guanacaste mountain range, on the pacific slope of Rincón de la Vieja Volcano. It will have an estimated power output of 55 MW.

(3) Cóbano Transmission Line

The balance corresponds to costs incurred in the construction of the Santa Rita Cóbano Transmission Line, located between the Santa Rita Substation and Cóbano Substation, passing by the Carmona, Santa Rita, San Pablo, and Bejuco districts in Nandayure and Lepanto and Cóbano in Puntarenas. This transmission line has 126 structures (towers and posts), a total of 46.7 km, a transfer of 138 kW, and a 20m-wide easement.

(4) Anillo Sur Transmission Line

This project consists of the construction of the Anillo Sur Transmission Line, located between the Tarbaca-Parrita Transmission Line and Río Macho del Este Transmission Line, with approximately 16.2 km and a double-circuit transfer of 230 kW.

(5) Advanced mobile evolution

This project was created to acquire equipment, services, and Long Term Evolution (LTE) indoor solutions for the 4G mobile network in order to reduce the time of delivery of the equipment required to supply ICE’s available networks.

(6) Construction and management of real estate

The project consists of developing a physical space solution for investment in the construction of own infrastructure, located in La Sabana, to eliminate fixed permanent expenses for administrative leases that have limitations in the physical conditions for the use required by the ICE Group.

(Continued)

(7) Jacó Transmission Line

The project consists of the construction of a 14.1 km transmission line with truss towers and a 230 kW transmission substation, 1½ breaker scheme, interior-type FS_6 gas-insulated switchgear (GIS), with the equipment and civil works necessary to connect two transmission lines and two step-down transformers at 34.5 kW.

(8) New Power Control Center

The Project consists of the construction of a new branch of the Power Control Center, located outside of San José, near the SEN substations. The premises will have their own electricity services, uninterrupted direct current power supply for communications, SCADA/EMS equipment and programs, and communications for access to the SDH system.

The construction is required to ensure that the different segments of national and regional customers will have an adequate electric service supply in terms of price, quality, opportunity, continuity, and safety, considering critical infrastructure design features and the environmental conditions to benefit from the climate characteristics of the area.

(9) Advanced mobile services

Advanced mobile services corresponds to the acquisition of mobile equipment for radio bases in order to meet mobile coverage demand.

(10) Coyol Transmission Line

The project has a 3.3 km transmission line with truss towers and posts and a substation with a 1½ breaker scheme and a FS_6 gas-insulated switchgear (GIS), to operate at 230 kW, with two transformation modules at 230 kW, for two step-down transformers of 30/45 MVA, and 230/34.5/13.8 kW. It also has a simple bar system, sectioned and interconnected through a tie switch, two transformation sections, and 11 line sections.

(11) Acquisition of assets - senior management

The Financial-Administrative Modernization Program (PMAF) is a solution that integrates the redesign of logistics, administrative, and financial processes, based on the industry's best practices, supported by a platform that includes software, licenses, and infrastructure.

(Continued)

The PMAF program includes redesigning, integrating, and consolidating operating and administrative processes of Finance, Supply Chain, Human Capital, and Project Management and improving the efficiency and availability of information for ICE's effective decision making, by relying on an integrated system, SAP's Enterprise Resource Planning (ERP).

(12) Management of network elements

Solutions under construction to meet the needs for next-generation services for residential customers.

(13) Reinforcement of the distribution system

The Coyol distribution line is located in El Coyol, San José district, Alajuela, with an 11.3 km underground distribution line network, to be built under the design and construction modality.

The purpose of the works to address the strong increase in demand in the western region of Alajuela's central county due to the establishment of industries and free trade zones. This improvement is expected to result in a greater socioeconomic development for the inhabitants of that region.

(In millions of colones)

Movement in construction work in progress, materials in transit, and inventory for investment projects as of December 31, 2016 and 2015 is as follows:

Account		As of December 31, 2014	Additions	Capitalizations	Capitalizable depreciation	Interest and commissions	Warehoused	Ajustes y Reclasificaciones	Additions	As of December 31, 2015 *(Restated)**	Used in works	Capitalizations	Capitalizable depreciation	Interest and commissions	Warehoused	Used in works	As of December 31, 2016
Construction work in progress	¢	582,131	320,459	(535,712)	1,121	40,005	-	-	-	408,004	308,017	(393,807)	2,921	18,840	-	-	343,975
Less: ** Elimination of internal consumption of services		(3,617)	569	-	-	-	-	-	-	(3,048)	1,409	-	-	-	-	-	(1,639)
Subtotal construction work in progress		**578,514**	**321,028**	**(535,712)**	**1,121**	**40,005**	**-**	**-**	**-**	**404,956**	**309,426**	**(393,807)**	**2,921**	**18,840**	**-**	**-**	**342,336**
Materials in transit for investment		34,184	18,201	(434)	-	-	(18,406)	-	(14,375)	19,170	54,646	-	-	-	(22,572)	(270)	50,974
Inventory for investment		159,871	21,495	-	-	-	78,181	-	(134,024)	125,523	117,350	-	-	-	-	(124,225)	118,648
Total	**¢**	**772,569**	**360,724**	**(536,146)**	**1,121**	**40,005**	**59,775**	**-**	**(148,399)**	**549,649**	**481,422**	**(393,807)**	**2,921**	**18,840**	**(22,572)**	**(124,495)**	**511,958**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE.

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

(In millions of colones)

Note 6. Long-term investments

Long-term investments are as follows:

		As of December 31,	
		2016	**2015 (Restated)***
Other investments valued at cost:			
Reventazón Hydroelectric Power Project Trust (1)	¢	-	137,869
Toro III Hydroelectric Power Project Trust (2)		11,203	11,203
Empresa Propietaria de la Red, S.A. (3)		3,124	3,124
Tecomunica, S.A. (4)		1,081	1,081
Red Centroamericana de Fibras Ópticas, S.A. (5)		143	143
Other		53	53
Subtotal		**15,604**	**153,473**
Long-term financial investments: (6)			
Government (External debt bonds)		40,522	30,773
BCCR (Bonds)		12,311	13,561
Investment costs		851	963
Other		44,400	8,242
Subtotal		**98,084**	**53,539**
Total long-term investments	**¢**	**113,688**	**207,012**

(*) See note 27.

(1) Reventazón Hydroelectric Power Project Trust

This trust derives from the "Reventazón Hydroelectric Power Plant" turnkey contract subscribed in 2013 by ICE and Scotiabank de Costa Rica, S.A., under the UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement, for financing, building, leasing, operating, and maintaining the Reventazón Hydroelectric Power Plant, whereby ICE acts as the trustor and main trust beneficiary and Scotiabank as the trustee.

Pursuant to the terms and conditions described in the trust, the project's execution is in connection with a joint investment made by the trust's parties for a total budgeted amount of US$1,379 million, whereby ICE would initially provide an investment of approximately US$475 million, financed with own funds, funds from the Central American Bank of Economic Integration (CABEI) and the Inter-American Development Bank (IDB), and funds from bond issues. The remaining amount of US$904 million corresponds to the investment to be provided by the trust to build the project, obtained through financing from the International Finance Corporation (IFC), IDB, Banco de Costa Rica, Banco Nacional de Costa Rica, Banco Popular y de Desarrollo Comunal, and Banco Crédito Agrícola de Cartago.

The construction of this project was designated to ICE by the trust following the conditions agreed in that trust. Accordingly, through the "Long-term investment" account, the amount of the investment made directly by ICE to execute the project was managed and controlled, in connection with the milestones of the project's completion. While the project was under construction, the own investment was initially managed through the "Construction work in progress" account. After completion, it was transferred to "Long-term investments" (see note 5). The cost of the works financed by the trust was managed by ICE in the "Service agreements" account, by controlling the costs incurred on behalf of the trust, which were billed to the trust according to the percentage of completions of the works.

Upon completion of works, ICE accumulated and recognized operating assets in the amount of ¢340,420, which is the total and final amount invested directly by ICE in the construction of the project. The portion invested by the trust in the construction of the project was also included in the "Operating assets" account, but under a finance lease agreement, agreed under the terms of the aforementioned trust (see note 4 (3)).

(2) Toro 3 Hydroelectric Power Project Trust

On March 9, 2006, ICE and the Junta Administrativa del Servicio Eléctrico Municipal de Cartago (Administrative Board of Cartago's Municipal Electricity Service, JASEC), subscribed a business partnership agreement for the design, financing, construction, and operation of the Toro 3 Hydroelectric Power Project, whereby both entities hold equal participation 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 BCR 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 electric power 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, fifty percent of the plant's national output will be recognized to JASEC from ICE, and a number of responsibilities managed by mutual agreement are defined.

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 3 Hydroelectric Power 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 3 Hydroelectric Power Project. The remaining 10% was provided by JASEC. The Toro 3 Hydroelectric Power Project's initial estimated value amounted to US$214 million, which was financed with loans from Banco de Costa Rica and Banco Popular y de Desarrollo Comunal and with funds from ICE and JASEC in the amount of US$44 million. Upon completion of works, a lease agreement was subscribed by the trust, ICE, and JASEC under an operating agreement.

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

ICE Group holds an ownership interest in Empresa Propietaria de la Red, S.A. (EPR), which was selected to execute the Sistema de Interconexión Eléctrica de los Países de América Central (Central American Electric Interconnection System, SIEPAC) Project. Such investment is performed by ICE Group, 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 an 11.11% ownership interest in EPR and will not hold more than 15%.

EPR's share capital is comprised of 58,500 ordinary shares of US$1,000 (one thousand U.S. dollars) par value each. ICE and CNFL own 6,061 and 439 shares of US$1,000 (one thousand U.S. dollars) par value each, respectively, for a total of US$6.5 (in millions), equivalent to ¢3,124 (11.11% ownership interest) for ICE Group. The shares are valued at acquisition cost.

In June 2016 and 2015, EPR paid ICE Group returns on the investment.

(4) Tecomunica, S.A. - Nicaragua

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

At meeting No. 6069 held on December 2, 2013, ICE's board of directors approved a first contribution in the amount of US$1 (in millions).

At meeting No. 6157 held on November 30, 2015, ICE's board of directors approved a second contribution in the amount of US$1 (in millions). As of December 31, 2015, the board of directors authorized contributions for a total of US$2 (in millions) (equivalent to ¢1,081).

At an extraordinary meeting of the General Board of Shareholders of Tecomunica, S.A. held on December 4, 2015, shareholders agreed to increase the share capital from 100 shares to 1,000 registered shares for a total of C$101,000,000, equivalent to US$4 million, with a par value of C$101,000 each, equivalent to US$4,000, of which 500 shares correspond to ICE (50% ownership interest) for a total of C$50,500,000, equivalent to US$2 million.

(Continued)

(In millions of colones)

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

In 2013, ICE Group acquired ownership interest in Red Centroamericana de Fibras Ópticas, S.A. (REDCASA), which is dedicated to developing, financing, constructing, operating, and commercially exploiting and providing maintenance to telecommunications services or services related to IT and communications. REDCASA's share capital is comprised of 2,700 ordinary shares of US$1,000 (one thousand U.S. dollars) par value each. ICE Group owns 300 shares (11.11% ownership interest), of which 93.24% are owned by ICE and 6.76% by CNFL.

(6) Long-term financial investments

Long-term financial investments mainly include investments in bonds (debt securities) with returns ranging between 5.16% and 11.46% per annum (2015: between 6.58% and 11.46% per annum) in colones and between 4.06% and 5.84% per annum (2015: 4.69% and 5.84% per annum) in U.S. dollars. The total value of this asset comprises investments in securities denominated in colones and in U.S. dollars in the amount of ¢84,880 and ¢13,204 (equivalent to US$24 million), respectively (2015: ¢52,464 and ¢1,075, equivalent to US$2 million), maturing between May 2017 and April 2028 (2015: February 2016 and April 2028).

Note 7. Cash and cash equivalents

		As of December 31,	
		2016	**2015 (Restated)***
Cash on hand and in banks	¢	74,888	10,160
Cash equivalents		99,336	171,060
Total	**¢**	**174,224**	**181,220**

(*) See note 27.

(In millions of colones)

The features of cash equivalents are as follows:

				As of December 31, 2016			
	Currency	**Issuer**	**Type of financial instrument**	**Balance**	**Face value**	**Rate of return**	**Term in months**
Uncommitted:							
Available for sale	**Colones**	BAC San José	Term certificate of deposit (global bond)	¢ 4,000	4,000	4.80%	Mar 17
		Repurchase operations	Repurchase operations	29,558	29,733	3.61% - 4.22%	Jan 17
		Grupo Mutual Alajuela	Mortgage Participation Certificate	3,000	3,000	5.75%	Feb 17
		BN Sociedad de Fondos de Inversión, S.A.	Investment funds	16	-	-	Demand
	U.S. dollars	Banco Internacional de Costa Rica	Overnight deposit	16,304	-	0.20%	Demand
		Repurchase operations	Repurchase operations	653	657	3.06% - 3.07%	Feb 17
		Banco Internacional Costa Rica	Overnight deposit	728	-	0.20%	Demand
Held to maturity	**Colones**	Banco Nacional de Costa Rica	Short-term investment	452	452	0.20%	Jan 17
		Banco Nacional de Costa Rica	Short-term investment	877	848	0.20%	Jan 17
		Banco de Costa Rica	Term certificate of deposit	2,500	2,500	1.08%	Dec 16, 2016 - Jan 3, 2017
	U.S. dollars	Banco de Costa Rica	Term certificate of deposit	3,958	3,958	1.15%	Jan 17
		Banco de Costa Rica	Term certificate of deposit	1,370	1,370	1.20%	Dec 16, 2016 - Jan 3, 2017
		BICSA	Term certificate of deposit	2,357	2,357	0.50%	Nov 30, 2016 - Jan 13, 2017
	Colones	SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN DinerFondo - colones	8,575	-	2.53% - 2.69%	Demand
Fair value		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR - colones	7,619	-	2.81% - 3.13%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity - colones	5,950	-	2.12% - 3.12%	Demand
		SAFI Banco Popular	I.F. non-diversified BP money market	3,185	-	2.78%	Demand
		SAFI BAC San José	I.F. non-diversified BAC San José - liquidity - colones	2,227	-	2.23%	Demand
		SAFI Scotiabank de Costa Rica	I.F. non-diversified Scotiabank - public	514	-	2.98%	Demand
		SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN DinerFondo - colones	783	-	2.52% - 2.71%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR - colones	383	-	2.81% - 3.13%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity - colones	219	-	2.66% - 3.32%	Demand
		Banco Popular	I.F. non-diversified BP money market	371	-	2.78%	Demand
		SAFI BAC San José	I.F. non-diversified BAC San José - liquidity - colones	259	-	2.23%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotiabank - public	80	-	2.98%	Demand
	U.S. dollars	SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN DinerFondo - U.S. dollars	1	-	1.42% - 1.88%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR - U.S. dollars	2,718	-	1.78% - 2.11%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity - U.S. dollars	337	-	1.75% - 1.80%	Demand
		SAFI Scotiabank de Costa Rica	I.F. non-diversified Scotia - public	-	-	1.51%	Demand
		SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN DinerFondo - U.S. dollars	3	-	1.44% - 1.88%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR - U.S. dollars	286	-	1.78% - 2.11%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity - U.S. dollars	4	-	1.82% - 1.91%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotiabank - public	6	-	1.48%	Demand
Investment costs	**Colones**	Costs of investment transactions	Costs of investment transactions	43	-	-	-
Total				**¢ 99,336**	**-**		

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	Currency	Issuer	Type of financial instrument	As of December 31, 2015 Balance (Restated)*	Face value	Rate of return	Term in months
Uncommitted:							
Available for sale	**Colones**	Repurchase operations	Repurchase operations	¢ 25,054	25,233	4.22% - 4.91%	Nov 2015 - Jan 2016
		Banco Citibank (CMB Costa Rica)	Term certificate of deposit (global bond)	6,000	6,000	4.00% - 4.50%	Oct 2015 - Feb 2016
		Financiera Desyfin	Term certificate of deposit (global bond)	500	500	4.72%	Nov 2015 - Feb 2016
		Grupo Mutual Alajuela-La Vivienda de Ahorro y Préstamo	Mortgage Participation Certificate	2,000	2,022	4.00%	Dec 2015 - Feb 2016
		Banco de Costa Rica	Term certificate of deposit (global bond)	6,500	6,571	3.62% - 4.29%	Oct 2015 - Jan 2016
		Banco Popular y de Desarrollo Comunal	Term certificate of deposit (global bond)	1,500	1,500	4.17%	Nov 2015 - Feb 2016
		BN Sociedad de Fondos de Inversión, S.A.	Investment funds	15			Demand
	U.S. dollars	Banco Internacional de Costa Rica	Overnight deposit	31,835	-	0.20%	Demand
		Repurchase operations	Repurchase operations	2,715	2,725	2.59% - 3.20%	Nov 2015 - Jan 2016
		Banco Internacional Costa Rica	Overnight deposit	2,187	-	0.20%	Demand
Held to maturity	**Colones**	Banco de Costa Rica	Term certificate of deposit	4,431	4,431	0.69%	Dec 2015 - Jan 2016
		Banco de Costa Rica	Term certificate of deposit	1,870	1,870	1.47%	Dec 18, 2015 - Mar 18, 201
		Banco de Costa Rica	Term certificate of deposit	1,000	1,000	0.65%	Dec 18, 2015 - Jan 4, 2016
		Banco de Costa Rica	Term certificate of deposit	450	450	1.25%	Dec 4, 2015 - Jan 20, 2016
		Banco Nacional de Costa Rica	Short-term investment	12,786	12,786	0.75%	Dec 2015 - Jan 2016
		Government	Treasury note (electronic over the counter)	10,000	10,016	2.00%	Dec 2015 - Jan 2016
		Government	Zero-coupon Central Bank global bond (over the counter)	10,047	10,050	2.42%	Oct 2015 - Jan 2016
		Banco Nacional de Costa Rica	Short-term investment	18,871	18,871	0.75%	Dec 2015 - Jan 2016
		Banco de Costa Rica	Term certificate of deposit	1,475	1,475	0.69%	Dec 2015 - Jan 2016
	U.S. dollars	Banco de Costa Rica	Term certificate of deposit	91	91	1.60%	Jun 16, 2016 - Aug 16, 201(
		BICSA	Term certificate of deposit	2,487	2,487	2.00%	Dec 18, 2015 - Mar 14, 201
				-			
Fair value	**Colones**	SAFI Banco Nacional de Costa Rica	I.F. non-diversified SuperFondo BN - colones	8,359	-	2.72% - 3.06%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR - colones	6,310	-	2.55% - 3.30%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity	2,959	-	2.74% - 3.10%	Demand
		SAFI Banco Popular	I.F. non-diversified BP money market	2,615	-	2.74%	Demand
		SAFI BAC San José	I.F. non-diversified BAC San José - liquidity - colones	682	-	2.23%	Demand
		SAFI Scotiabank de Costa Rica	I.F. non-diversified Scotia - public	9	-	1.52%	Demand
		Banco Nacional de Costa Rica	I.F. non-diversified SuperFondo BN - colones	10	-	2.65% - 3.04%	Demand
		Banco de Costa Rica	Investment funds	5	-	2.54% - 3.32%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity	8	-	2.64% - 3.04%	Demand
		Banco Popular	I.F. BP money market - colones	2	-	2.74%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotiabank - public	79	-	1.77%	Demand
	U.S. dollars	SAFI Banco Nacional de Costa Rica	I.F. non-diversified DinerFondo BN - U.S. dollars	827	-	0.69% - 1.30%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified BCR - liquidity - U.S. dollars	3,050	-	0.84% - 1.35%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity	2,105	-	0.69% - 0.95%	Demand
		Banco Nacional de Costa Rica	I.F. non-diversified SuperFondo BN - colones	406	-	0.70% - 1.29%	Demand
		Banco de Costa Rica	I.F. non-diversified BCR - liquidity - U.S. dollars	1,754	-	0.82% - 1.35%	Demand
		Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity	1	-	0.69% - 0.95%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotiabank - public	5	-	0.94%	Demand
Investment costs	**Colones**	Costs of investment transactions	Costs of investment transactions	60		-	-
Total				**¢ 171,060**	-		

(*) *See* note 27.

(Continued)

(In millions of colones)

Note 8. Temporary investments

As of December 31, 2016, ICE Group holds held-to-maturity investments (term certificates of deposit and zero-coupon Central Bank bond) in the amount of ¢15,603, of which ¢11,013 and ¢4,590 are denominated in colones and in U.S. dollars, respectively (2015: held-to-maturity investments in the amount of ¢19,563, of which ¢12,006 and ¢7,557 are denominated in colones and in U.S. dollars) and available-for-sale investments (term certificates of deposit, Scotiabank bonds, monetary stabilization bonds, commercial paper, and mortgage participation certificates) in the amount of ¢95,002, of which ¢88,604 and ¢6,398 are denominated in colones and in U.S. dollars (2015: available-for-sale investments in the amount of ¢84,019, of which ¢79,850 and ¢4,169 are denominated in colones and in U.S. dollars), bearing interest at rates ranging between 2.72% and 7.99% per annum (2015: between 2.49% and 9.24% per annum), and maturing between three and 12 months (2015: between four and 12 months).

		As of December 31,	
		2016	**2015**
Held-to-maturity and available-for-sale investments	¢	110,605	103,582
Valuation of investments		2,034	2,943
Temporary investments, net	**¢**	**112,639**	**106,525**

Valuation of investments

As of December 31, 2016, ICE recognizes a net unrealized gain in the amount of ¢2,034 (2015: ¢2,943) as a result of the valuation of available-for-sale temporary investments. Such unrealized gain is included under “Result of valuation of financial instruments” in the equity section.

(In millions of colones)

Note 9. Restricted funds

Restricted funds allocated to specific purposes are as follows:

		As of December 31,	
		2016	**2015**
Guarantees received from third parties:			
In U.S. dollars	¢	508	1,078
In colones		767	1,015
Specific purpose funds:			
BCR Platinum (¢) - Cash for payment of services (1)		25,668	3,620
BNCR Gold - Cash for amortization of short-term debt		1,575	5,620
Total	**¢**	**28,518**	**11,333**

(1) Cash for payments of ICE services

"Cash for payments of ICE services" holds the funds necessary for the most relevant operations, i.e. payments for the purchase of energy, loan payments, securities, materials purchases, payrolls, employer-employee contributions, and other.

Note 10. Notes receivable

Short- and long-term notes receivable are as follows:

		As of December 31,			
		2016		2015	
		Long-term	**Short-term**	**Long-term**	**Short-term**
Loan to autonomous entities (1)	¢	7,294	497	7,711	131
Private individuals or companies		-	1,595	-	1,768
Payment arrangement with suppliers		-	4,374	-	-
Agreements		180	69	-	309
CNFL-MINAET Agreement (Olivier Hydroelectric Power Project)		619	17	614	16
Other		149	46	-	52
Total	**¢**	**8,242**	**6,598**	**8,325**	**2,276**

Loan to autonomous entities

9-1-1 Emergency system

On December 21, 2012, an inter-institutional agreement was subscribed by ICE and the 9-1-1 emergency system through the "Agreement to Pay Accounts due from the 9-1-1 Emergency System to ICE". In this agreement, the debt was expressly acknowledged and accepted, and a "payment arrangement" was formally subscribed by the 9-1-1 emergency system to settle such debt.

On November 30, 2015, it was agreed that the 9-1-1 Emergency System will honor this financial obligation with 30 half-yearly payments from April 30, 2016 to October 31, 2030. This balance will bear annual interest at the base deposit rate of BCCR in effect one week before the payment date. As of December 31, 2016 and 2015, the note receivable amounts to ¢5,422.

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

A loan agreement was subscribed by ICE and EPR to repay loan IDB No. 1908 for ¢2,369, equivalent to US$4.5 (in millions) (2015: ¢2,420). The total debt term is 25 years starting November 24, 2010, with a 5-year grace period, payable half-yearly, bearing a variable interest rate (3-month LIBOR rate of 0.88% + 0.11% funding margin + 1.15% IDB's lending spread as of 2016) (2015: LIBOR rate of 0.32% + 0.05% funding margin + 1.15% IDB's lending spread).

(In millions of colones)

Note 11. Receivables, net

Receivables for services rendered and non-trade receivables are as follows:

		As of December 31,	
		2016	**2015**
Receivables for services rendered:			
Private individuals or companies	¢	45,350	47,310
In administrative and legal collection		55,159	50,834
Electricity services - consumers		23,273	20,415
Electricity cooperatives and municipal electricity distribution companies		10,855	10,315
Operators and service suppliers		6,045	5,056
Telephone administrations		2,439	2,596
Public agencies		5,558	2,449
Other		2,629	3,860
Subtotal		**151,308**	**142,835**
Allowance for doubtful accounts		(55,336)	(52,717)
Accounts receivable for services rendered, net		**95,972**	**90,118**
Non-trade receivables:			
Private individuals or companies (1)		22,745	24,544
Government taxes		7,510	7,272
Agreements, paid services and other		3,293	3,157
Damage to electrical installations		516	1,087
Sundry government services		678	112
Other		2,245	4,061
Subtotal		**36,987**	**40,233**
Allowance for doubtful accounts		(7,186)	(7,193)
Non-trade receivables, net		**29,801**	**33,040**
Total receivables		**188,295**	**183,068**
Allowance for doubtful accounts		(62,522)	(59,910)
Receivables, net	¢	**125,773**	**123,158**

(Continued)

(In millions of colones)

(1) Non-trade receivables - Individuals

As of December 31, 2016, the balance of "Non-trade receivables - Individuals" includes, among other, advance payments made by ICE Group to purchase fuel for the generation of thermal power in the amount of ¢1,094 (2015: ¢1,734), advance payments to private individuals related to guarantees in the amount of ¢3,458 (2015: ¢3,763), interest and fees and commissions in the amount of ¢3,051 (2015: ¢4,133), receivables for unpriced services for ¢5,973 (2015: ¢9,946), and ICE's deposits in courts for ¢2,758 (2015: ¢2,758).

Movement in the allowance for doubtful accounts is as follows:

Allowance for doubtful accounts		As of December 31, 2014 (Restated)	Used	Expense	As of December 31, 2015	Used	Expense	As of December 31, 2016
Receivables for services rendered	¢	40,254	(4,402)	16,865	52,717	(7,144)	9,763	55,336
Non-trade receivables		7,274	(82)	1	7,193	(8)	1	7,186
Total	**¢**	**47,528**	**(4,484)**	**16,866**	**59,910**	**(7,152)**	**9,764**	**62,522**

Note 12. Operating inventory

Operating inventory is as follows:

		As of December 31, 2016	As of December 31, 2015
Operating inventory	¢	69,148	69,189
Materials and equipment held in custody		21,302	20,766
Materials in transit for operations		5,698	3,538
Subtotal		**96,148**	**93,493**
Allowance for valuation of inventory		(32,465)	(43,695)
Total inventory	**¢**	**63,683**	**49,798**

(In millions of colones)

Movement in the allowance for valuation of inventories is as follows:

		As of December 31						
		2014 (Restated)	**Used**	**Expenses**	**2015**	**Used**	**Expenses**	**2016**
	¢	11,333	(1,693)	34,055	43,695	(12,022)	792	32,465
Total	**¢**	**11,333**	**(1,693)**	**34,055**	**43,695**	**(12,022)**	**792**	**32,465**

In December 2015, the allowance for valuation of inventories was increased based on a study performed by an interdisciplinary group created by the Inventories Commission. The study considered the following variables:

- lack of turnover: inventories with no movements for more than 24 months.
- overstock: inventories that will last for more than 48 months based on the consumption pattern and current stock.
- risk of lack of turnover: inventories with no movements for more than 13 months and less than 24 months.
- safety stock: Inventory items that are critical for business continuity in accordance with the technical criteria of the segments.

This review process considered the risk of technological obsolescence to which ICE Group’s inventories are exposed. The scope of the review requested was broader than prior-year scopes, when analyses were based on the “ABC Methodology” established by the Supply Chain Division. The 2015 study analyzed new evidence in light of ICE Group’s current market conditions and competition. Accordingly, its accounting treatment consisted of changing to an accounting estimate with prospective effects.

(In millions of colones)

Note 13. <u>Prepaid expenses</u>

Prepaid expenses are as follows:

		As of December 31,	
		2016	**2015 (Restated)***
Mobile terminals and devices	¢	33,472	42,097
Purchase of energy from private producers (1)		-	24,393
Use agreements (2)		19,937	19,966
Finance costs - Reventazón (3)		14,476	-
ING-0008 (U-500) insurance policy, net (4)		2,724	3,077
Other		2,416	3,229
Total	**¢**	**73,025**	**92,762**

(*) See note 27.

(1) <u>Purchase of energy from independent power producers</u>

In August 2015, through Official Letter No. 5407-136-2015, ICE requested an extraordinary rate adjustment for the generation service, requiring the recognition of an additional cost for the purchase of privately generated electricity. As a result, on October 30, 2015, in a publication made in Official Gazette No. 89, ARESEP (the Regulatory authority), through the Energy Management Office, informs about Ruling RIE-107-2015 dated October 23, 2015, whereby it indicates the recognition of ¢24,393.6 corresponding to the aforementioned cost, which will be recovered through the rate adjustment during the period running from January 1, 2016 to December 31, 2016. Accordingly, considering the accounting policy on prepaid expenses (see note 3.e (v)), ICE amortized during 2016 the additional costs recognized by the aforementioned Energy Management Office, based on the provision issued by such office indicating that those costs would be included for recovery in the electricity rates to be applied in the period running from January to December 2016. Accordingly, the decreased observed in 2016 in the “Purchase of privately generated electricity” balance in respect of 2015 is due to that amortization (see note 44).

(Continued)

(In millions of colones)

(2) Use agreements – Garabito Thermal Power Plant

On November 5, 2007, ICE and BCR (trustee) subscribed a lease agreement under a Securitization Trust for construction of the Garabito Thermal Power Plant (see note 31). The lease term of the aforementioned thermal power plant according to that trust is 142 months (11 years and 10 months), which started in June 2010. Since the plant did not start commercial operations on the anticipated date (June 2010), management of the Executing Unit of the Garabito Thermal Power Plant and ICE agreed on November 19, 2010 that ICE would begin to amortize prepaid expenses starting January 2011 corresponding to lease payments made by ICE from June to December 2010, applying the first payment (made in June 2010) in January 2011 and so on until March 2022, which is the expiration date of the lease agreement.

After March 2022, ICE may continue to use the asset for an additional seven months.

(3) Finance costs - Reventazón

Starting November 2016, the first amortization is made and expenses are booked for interest generated by the Reventazón Hydroelectric Power Project Trust (see note 14).

(4) ING-0008 (U-500) insurance policy

The ING-0008 (U-500) all-risk policy is a contract at replacement value that is appropriate for ICE's needs and covers all risks of physical loss to property insured, such as fire, landslides, floods, hurricanes, lightning, etc. Policy coverage includes: equipment breakdown, business interruption, additional expenses, inland transit, robbery, wire theft, debris removal, errors and omissions, construction work in progress, sabotage, terrorism, catastrophic risks, etc.

Movement of the ING-0008 (U-500) insurance policy during the years ended December 31, 2016 and 2015 is as follows:

		As of December 31,	
		2016	**2015**
Opening balance	¢	3,077	3,149
Amount of premium		10,246	11,936
Amortization of premium		(10,599)	(12,008)
Total	**¢**	**2,724**	**3,077**

Note 14. Service agreements

The main service agreements subscribed with third parties are as follows:

Project		As of December 31, 2016	2015 (Restated)*
Reventazón Hydroelectric Power Project (1)	¢	603	33,617
Service sales projects		618	160
Water supply system project		17	60
Subtotal		**1,238**	**33,837**
** Eliminations of internal consumption of services		(23)	(25)
Total	¢	**1,215**	**33,812**

(*) See note 27.

(**) Internal consumption of services incurred by the different areas of ICE Group.

(1) Reventazón Hydroelectric Power Project

As indicated in note 4, on May 22, 2013, ICE and Banco Scotiabank subscribed an infrastructure trust agreement for the development of the Reventazón Hydroelectric Power Project called “UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement”. Together with that trust agreement, ICE and the trust subscribed an EPC (Engineering, Procurement, and Construction) Turnkey Service Agreement for the construction of the Reventazón Hydroelectric Power Project. The agreement initially amounted to US$693 (in millions), which includes engineering services related to the project’s design, purchase of required materials, acquisition of required work force, and construction services for the project. Construction works started in 2010 and were completed in 2016. During that period, ICE managed and controlled the cost of each of the milestones completed in relation to the project through the “Service Agreement” account, in which costs were accrued to be billed to the trust. Thus, the balance for 2016 corresponds to the amount pending billing at that time. In 2016, the completion of works resulted in a decrease of ¢33,014 in the “Reventazón Hydroelectric Power Project Services Agreement” account balance in respect of the balance as of December 31, 2015, mainly due to the billing of costs related to the execution of the project. Therefore, the start of operations gives rise to the liquidation of this account in order to make the respective capitalization.

(In millions of colones)

Note 15. Project design and execution

Project design and execution includes the costs incurred or investments made in the design and planning stages of the following projects:

Project		As of December 31, 2016	2015 (Restated)*
El Diquís Hydroelectric Power Project (1)	¢	85,364	82,006
Refitting of south-center transmission line		4,991	4,990
Verbena transmission line		2,218	2,142
La Carpio deviation		-	1,942
Transmission lines		251	517
Renewal of power transformers		175	-
Other		57	1,501
Subtotal		**93,056**	**93,098**
** Elimination of internal consumption of services		(104)	(104)
Total	**¢**	**92,952**	**92,994**

(*) See note 27.

(**) Internal consumption of services incurred by the different areas of ICE Group.

The nature and the main transactions related to project design and execution works during the year are described as follows:

(1) El Diquís Hydroelectric Power Project (PHED):

As part of ICE's electricity generation expansion plan, which arises from the legal mandate received to study and get to know the energy potential of the country's river basin, in 2000, ICE begun a study to establish additional alternatives aimed at taking advantage of those basins, analyzing options with a generation capacity that enables to optimize ICE's energy supply to the country's future Electricity Segment needs. Accordingly, an important potential was determined in the county's Southern Region, specifically the Brunca region. This led to a number of technical and feasibility studies that resulted in the investment in the El Diquís Hydroelectric Power Project. This project aims to take advantage of the flow of the General River so as to generate an estimated hydroelectric power output of 650 MW and an annual power generation of 3,050 GW/h.

The decision to develop the PHED arises from the expansion plan evaluations. The studies consider the existing system and the options available to meet future electric power needs. The use of simulation models developed for this purpose determined that El Diquís is part of the plans with lesser economic costs. These programs minimize the costs of investment, operation, and probability of failure and ensure compliance with minimum reliability criteria.

PHED is expected to start operations in 2026. The expansion plan is adjusted as new demand projections arise, but PHED's start of operations are maintained due to its strategic nature. If new demand projections showed a greater electricity consumption growth, the plan would be adjusted by adding fast implementation projects; otherwise, the adjustment would be made through the delay or cancellation of minor projects, so that the date for the PHED is unchanged and the expansion plan is maintained optimized.

PHED is a strategic project to develop the electric network as it complies economically with two essential functions, i.e. meeting the increasing demand and compensate the variations of the new sources of generation. In 2026, when PHED will start operations, the country's demand will exceed 14,000 GWh, an increase of 50% of the current electricity consumption. Long-term planning studies determined that PHED is the optimum economic option to meet the growth of demand in the coming decades. Additionally, the dam and the plant's output will enable compensation of the quick variations of wind and solar power generation, which would otherwise be unacceptable within the generation system. The PHED's storage of energy makes feasible to increase the incursion of these variable sources without jeopardizing service quality.

PHED was also declared a matter of public and national interest through Executive Order No. 34312-MP MINAE of 2008. Accordingly, any process required for project execution, including financing, environmental studies, and other affairs, will be a matter of priority for any and all governmental institutions involved in such process, giving such related activities a prompt and effective process.

(Continued)

As indicated, since 2000, ICE begun a number of technical and feasibility studies aimed at justifying the project's feasibility and importance, which led to an investment in the amount of ¢85,364 million (2015: ¢82,006 million) as of December 31, 2016. Such investment includes costs incurred for a number of activities related to the execution of the Environmental Impact Study, which as of the date of this report is in an advanced stage for its subsequent presentation to SETENA, the local entity that reviews, approves, and issues the Environmental Permit. The purpose of the study is to identify, foresee, and assess the environmental impacts that may cause positive and negative effects on the environment and, thus, prepare an Environmental Management Forecast Plan aimed at preventing, correcting, mitigating, or compensating those effects seeking the project's sustainable development. In executing this study, ICE considered the requirements established by local legislation and regulations and used as a reference the requirements established by certain international financial institutions as part of the terms and conditions to finance projects like this.

Together with the environmental study, as part of the elements required to meet the aforementioned local and international regulatory requirements and the requirements of the United Nations (UN) in Convention 169 *Convention concerning Indigenous and Tribal Peoples in Independent Countries* (C169) of the International Labour Organization, ratified by our country in 1992, the process known as Indigenous Consultation, which arises from the fact that the location of the aforementioned hydroelectric power project includes indigenous territories that will be affected by the construction of the project's dam. Under this scenario, under the responsibility of the Government of Costa Rica, the aforementioned consultation process begun with the purpose of establishing a dialogue platform between the Government and indigenous peoples aimed at preparing a regulatory instrument to govern the activities defined in order to address the effects of PHED's execution. The consultation process involves agreements that are binding to the grant of the aforementioned Environmental Permit and are estimated to be completed during 2017. At the beginning, due to deficiencies in the dialogue process with the indigenous peoples, lawsuits were filed by the Association for the Indigenous Development of Térraba (ADIT), which have been solved as a result of the reconsideration regarding the Indigenous Consultation Process.

(Continued)

Feasibility studies indicate that the investment foreseen for the execution of PHED amounts to approximately US$4,000 million (including escalations and financial expenses). To finance this investment, ICE has created a work team, known as the Financing Committee, that has been exploring financing schemes based on business model foreseen, which could have an a local and regional scope, at the beginning of operations, supplying the needs for energy of the country and the Central American region, in which the Regional Electricity Market (MER) operates. It is important to consider in the search for project's financing that PHED is a matter of public interest, as mentioned above, and a renewable energy project, which are elements that provide robustness to the negotiations that will be eventually required in the financing process.

In general terms, in the opinion of ICE's Corporate Government, PHED is essential to comply with the plan to expand the power generation capacity, as a measure to meet the energy demand foreseen, when a robust national electricity market is projected to exist. Additionally, the activities performed by ICE before the project's start-up are pro-active efforts that will facilitate the mentioned financing process.

(Continued)

(In millions of colones)

Note 16. Non-operating assets

Non-operating assets are as follows:

		As of December 31, 2014	Additions and capitalizations	Disposals	Transfers	As of December 31, 2015	Additions and capitalizations	Disposals	Transfers	As of December 31, 2016
Historical cost:										
Land	¢	26,752	2,077	-	1	28,830	-	-	(28,830)	-
Buildings		4,764	10	-	-	4,774	-	-	(4,774)	-
Artwork and collector's items		23	-	-	-	23	-	-	(23)	-
Substations		1,963	26	-	-	1,989	-	-	(1,989)	-
Hydroelectric power plants		674	-	-	-	674	-	-	(674)	-
General equipment		899	-	(866)	-	33	-	-	(33)	-
Surco Tico, S.A. - Forestry project		1,010	84	-	(546)	548	-	-	(548)	-
Other assets		145	-	-	-	145	-	-	(145)	-
Total cost		**36,230**	**2,197**	**(866)**	**(545)**	**37,016**	**-**	**-**	**(37,016)**	**-**
Accumulated depreciation - cost:										
Land and land improvements		52	80	-	-	132	-	-	(132)	-
Buildings		1,000	286	-	-	1,286	-	-	(1,286)	-
Substations		309	63	-	-	372	-	-	(372)	-
Hydroelectric power plants		165	42	-	-	207	-	-	(207)	-
General equipment		2	-	-	-	2	-	-	(2)	-
Other assets		14	1	-	-	15	-	-	(15)	-
Total depreciation		**1,542**	**472**	**-**	**-**	**2,014**	**-**	**-**	**(2,014)**	**-**
Revaluation:										
Land		9,233	-	-	9	9,242	-	-	(9,242)	-
Buildings		3,150	-	-	-	3,150	-	-	(3,150)	-
Substations		339	-	-	-	339	-	-	(339)	-
Hydroelectric power plants		7,938	-	-	-	7,938	-	-	(7,938)	-
General equipment		1	-	-	-	1	-	-	(1)	-
Other assets		183	-	-	-	183	-	-	(183)	-
Total revaluation		**20,844**	**-**	**-**	**9**	**20,853**	**-**	**-**	**(20,853)**	**-**
Accumulated depreciation - revaluation:										
Land and land improvements		252	67	-	-	319	-	-	(319)	-
Buildings		2,302	100	-	-	2,402	-	-	(2,402)	-
Substations		44	12	-	-	56	-	-	(56)	-
Hydroelectric power plants		5,592	85	-	-	5,677	-	-	(5,677)	-
General equipment		1	-	-	-	1	-	-	(1)	-
Other assets		55	3	-	-	58	-	-	(58)	-
Total depreciation revaluation		**8,246**	**267**	**-**	**-**	**8,513**	**-**	**-**	**(8,513)**	**-**
Total non-operating assets	**¢**	**47,286**	**1,458**	**(866)**	**(536)**	**47,342**	**-**	**-**	**(47,342)**	**-**

Starting 2016, non-operating assets are reclassified to operating assets and other operating assets (see note 4). The transfer is made in the amount equivalent to the historical cost plus revaluation adjustments (the adjusted cost).

(In millions of colones)

Note 17. Intangible assets

Intangible assets are as follows:

		As of December 31, 2016	2015 (Restated)*
Intangible assets:			
Licenses, systems and applications	¢	104,461	105,497
Rights of way and easements (1)		28,740	25,576
Goodwill (2)		2,813	5,863
Rights guaranteed by law		2	2
Total cost		**136,016**	**136,938**
Accumulated amortization:			
Licenses, systems and applications		83,012	72,451
Goodwill		444	601
Total amortization		**83,456**	**73,052**
Net total	**¢**	**52,560**	**63,886**

(*) See note 27.

Movement in intangible assets is as follows:

		As of December 31, Licenses, systems and applications		Rights of way and easements		Rights guaranteed by law		Goodwill		Total	
		2016	**2015 (Restated)***	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015 (Restated)***
Cost:											
Opening balance	¢	105,497	81,116	25,576	24,974	2	2	5,863	5,863	136,938	111,955
Additions		19,096	29,128	3,164	668	-	-	-	-	22,260	29,796
Transfers		(10,909)	(500)	-	-	-	-	-	-	(10,909)	(500)
Disposals		(9,223)	(4,260)	-	(66)	-	-	-	-	(9,223)	(4,326)
Adjustments		-	13	-	-	-	-	(3,050)	-	(3,050)	13
Total cost	**¢**	**104,461**	**105,497**	**28,740**	**25,576**	**2**	**2**	**2,813**	**5,863**	**136,016**	**136,938**
Accumulated amortization											
Opening balance	¢	72,451	62,352	-	-	-	-	601	300	73,052	62,652
Amortization - expense		14,984	11,713	-	-	-	-	(157)	301	14,827	12,014
Amortization - investment		408	195	-	-	-	-	-	-	408	195
Reclassifications		-	7	-	-	-	-	-	-	-	7
Transfers		(3,584)	-	-	-	-	-	-	-	(3,584)	-
Disposals		(1,247)	(1,816)	-	-	-	-	-	-	(1,247)	(1,816)
Total amortization		**83,012**	**72,451**	**-**	**-**	**-**	**-**	**444**	**601**	**83,456**	**73,052**
Net total	**¢**	**21,449**	**33,046**	**28,740**	**25,576**	**2**	**2**	**2,369**	**5,262**	**52,560**	**63,886**

(*) See note 27.

Amortization method

For calculating the amortization of licenses, software, and applications, ICE applies the straight-line method from the date the assets are first used, over the useful life established and reviewed by the technical areas defined by the segments.

ICE's rights of way and easements have no defined term over which they generate future benefits to ICE; accordingly, they are not amortized.

(1) Rights of way and easements

Rights of way and easements correspond to payments made to the owners of land that ICE is required to access to develop its various projects and to provide electricity and telecommunications services. However, those rights are mainly originated in 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.

(2) Goodwill

Goodwill corresponds to the excess of the acquisition cost over the carrying amount (net equity) of the subsidiary acquired EVCSA (merged with CNFL in 2014) (see note 3(a)).

Impairment testing for cash-generating units (CGUs) containing goodwill:

For purposes of impairment testing of goodwill associated with the acquisition of EVCSA, the entity as a whole (CNFL), including generation systems, distribution, marketing, and street lighting, was determined as a CGU, which represents the lowest level at which goodwill is distributed and monitored for management purposes.

The subsidiary CNFL follows the policy of testing goodwill for impairment on an annual basis or more frequently if there is any indication of impairment.

The recoverable amount was based on value in use, determined by discounting the future cash flows expected to be generated from continuing use.

(In millions of colones)

Values assigned to the key assumptions represent management's criteria and expectations with respect to the future trends of its business and the market. The key assumptions used to determine value in use for purposes of impairment testing are as follows:

Key variable	Projection assumption
Cash flows	Projected in colones.
Projection period	Five tax years ended December 31. From 2017 to 2021.
Revenue growth	A revenue decrease of 5.8% projected in 2017. Growth of 6.1% per annum in colones during the projected period.
Operating margin	Ranging between 2.8% and 10.2% during the projected period.
Discount rate	Estimated at 7.8% per annum in colones (2015: 8.20%).
Terminal value	Calculated as a perpetuity at period-end.
Growth in operating expenses	Increase of 4% per annum during the projected period.
Working capital investment	Not considered in the analysis prepared by the entity.
Investment in property, machinery and equipment	Included in the maintenance expenses; therefore, it is not projected separately.

According to that analysis, the estimated recoverable amount exceeds the carrying amount of each CGU; consequently, no impairment loss in respect of the value of the assets was determined as of December 31, 2016.

The estimated value in use of the CGUs is particularly sensitive to revenue growth per annum and discount rate variations. Management has identified that a change in two key assumptions would cause the carrying amount to exceed the recoverable amount. The amount in which these two assumptions must change separately for the estimated recoverable amount of the CGU (CNFL) to be equivalent to the carrying amount is as follows:

	Change required for the carrying amount to be equivalent to the recoverable amount December 31	
	2016	2015
Discount rate	1.2%	1.55%
Revenue growth rate	(0.71%)	(0.94%)

The estimated recoverable amount of the CGU exceeds the carrying amount by approximately ¢224,311 (in millions) (2015: ¢235,276 (in millions).

Note 18. <u>Guarantee and Savings Fund (restricted fund)</u>

The “Guarantee and Savings Fund (restricted fund)” account balance reflects the total amount of ICE’s economic contributions to the Guarantee and Savings Fund System and the Supplemental Pension System and reflects the capitalization amounts recognized by both systems on such contributions, net of applications made due to withdrawals made in advance, pension rights, liquidations, and actuarial adjustments. The “Guarantee and savings fund (restricted fund)” is as follows:

		December 31,	
		2016	**2015**
Contribution to the Supplemental Pension System	¢	124,725	128,897
Contribution to the Guarantee and Savings Fund System		84,101	85,670
Total	**¢**	**208,826**	**214,567**

As indicated in note 2-e (viii), ICE’s contributions to the Guarantee and Savings Fund System and the Supplemental Pension System are aimed at reaching the purpose or activities related to the origin thereof, and the benefit plans derived therefrom are managed by the Guarantee and Savings Fund. The assets, liabilities, and equity of both systems are managed separately and are not included in the consolidated financial statements of ICE.

Additionally, as indicated in note 3 (f), the Supplemental Pension System is a vehicle created to manage the economic contribution or resources devoted to cover the obligation assumed by ICE of recognizing to its employees an additional pension benefit.

(In millions of colones)

The financial statements of ICE Group do not reflect the liability or the obligation related to pensions in payment process or the net assets available to cover future pension benefits associated with active workers. The foregoing is due to ICE’s accounting policy of reflecting only the contributions made to that system, as previously indicated. Such obligation and net asset are managed and reflected separately in the accounting records of the Supplemental Pension System-Fund vehicle. As of December 31, 2016, according to the accounting records of the aforementioned vehicle, the provision or obligation for pensions in payment process amounts to approximately ¢108,040 (2015: ¢81,992), and net assets available for future pension benefits amount to approximately ¢177,190 (2015: ¢185,384). These figures are subject to review through an actuarial study made by an independent actuary, based on the methodology and requirements of SUPEN, the country’s pension systems regulator entity. As of June 2016 and 2015, which is the cutoff date of the most recent actuarial study available, the main actuarial assumptions considered in the calculation are as follows:

	As of December 31,	
	2016	**2015**
Real discount rate(s)	3.50%	3.00%
Nominal discount rate(s)	7.64%	8.15%
Expected salary increase rate(s)	2%	2.5%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	4%	5%

Note 19. Securities payable (bonds)

Securities payable (bonds) issued by ICE are as follows:

	Currency	Interest rate	Year of maturity		As of December 31, 2016 Total	2016 Long-term	2016 Short-term	2015 Total	2015 Long-term	2015 Short-term
Internal debt:										
Bond issue	¢	Variable between 3.21% and 9.10% and fixed between 10.87% and 11.45% (2015: variable between 3.21% and 10.20% and fixed between 10.30% and 11.45%)	2021-2036	¢	280,206	255,206	25,000	264,612	264,612	-
Bond issue	US$	Fixed between 5.97% and 7.65% (2015: fixed between 5.71% and 7.65%)	2019-2027		310,547	310,547	-	327,039	300,148	26,891
External debt:										
Bond issue	US$	Fixed between 6.38% and 6.95% in 2016 and 2015	2021-2043		556,440	556,440	-	537,810	537,810	-
Other:										
Premium bond issue	¢	Variable between 6.49% and 8.70% and fixed between 6.95% and 11.41% (2015: variable between 8.30% and 10.20% and fixed between 5.41% and 11.41%)	2016-2027		6,481	6,481	-	7,494	7,494	-
Discount bond issue	¢	Variable 7.10% and fixed between 5.97% and 11.41% (2015: variable 8.50% and fixed between 5.97% and 11.41%)	2017-2043		(5,185)	(5,185)	-	(5,399)	(5,399)	-
				¢	**1,148,489**	**1,123,489**	**25,000**	**1,131,556**	**1,104,665**	**26,891**

(*) See note 27.

Securities payable (bonds) denominated in U.S. dollars amount to US$1,558 (in millions).

Note 20. Loans payable

Loans payable are as follows:

		As of December 31,	
		2016	**2015 (Restated)***
Internal debt:			
In colones	¢	173,074	119,035
In U.S. dollars		49,464	50,089
External debt:			
In U.S. dollars		668,155	658,143
In yens		70,577	58,932
		961,270	**886,199**
Short term		91,350	90,826
Long term		869,919	795,373
	¢	**961,270**	**886,199**

(*) See note 27.

Loans payable by creditor are as follows:

		2016	**2015**
Internal debt:			
State-owned banks	¢	213,170	154,900
Private banks		9,367	11,878
Other creditors		-	2,345
External debt:			
Private banks		718,426	684,555
Other creditors		20,307	32,521
	¢	**961,270**	**886,199**

Loans payable denominated in U.S. dollars and yens amount to US$1,289 (in millions) and ¥14,846 (in millions), respectively.

(Continued)

(In millions of colones)

In 2016, the general features of loans payable classified as internal and external debt are as follows:

General characteristics of the debt (U.S. dollars and colones, as indicated)	Interest rate	Currency	Term
Internal debt	Variable between 2.00% and 14.00% in 2016 and 2015	¢	Maturing between January 31, 2008 and October 21, 2045
	Variable between 2.65% and 6.25% in 2016 and 2015 Fixed between 1.95% and 8.50% (2015: fixed between 4.95% and 8.50%)	US$	Maturing between November 11, 2016 and June 7, 2021
External debt	Variable between 1.85% and 6.40% (2015: variable between 1.52% and 8.25% Fixed between 0.70% and 6.40% in 2016 and 2015	US$	Maturing between February 15, 2018 and September 15, 2040
	Fixed between 0.60% and 2.20% in 2016 and 2015	JPY	Maturing between April 20, 2026 and August 20, 2054

<u>Financial covenants:</u>

Generally, loan agreements establish a number of commitments in respect of environmental, legal, financial, operational, and business matters, among other, with which the debtor must comply. Those commitments are typically known as “covenants”. In the case of ICE, several of the agreements subscribed to date include “Positive covenants” and “Negative covenants” which establish, commitments that ICE must meet and restrict and limit certain actions, usually requiring prior approval from the creditor.

Some of the loan agreements include the following clauses:

a) *Cross Default:* these clauses establish that upon execution of a loan agreement, ICE expressly and irrevocably accepts that noncompliance with payment obligations, and/or other terms and conditions of the loan agreement and/or loan agreements subscribed by 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, ICE commits 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 ICE’s debt (except for debt commitments given preference by law).

In addition to the above, ICE must comply with the following general clauses, among other conditions, which are included in several loan agreements:

a) ICE will not, and will not permit any of its subsidiaries to, merge or consolidate with another private entity, except that: (a)any subsidiary of the Borrower (ICE) may merge or consolidate with any other subsidiary of the Borrower; (b) any subsidiary of the Borrower may merge with the Borrower, and (c) the Creditor (Bank) may approve a merger or consolidation provided that, in each case, no instances of noncompliance have occurred or continue to occur at the time of the proposed transaction, and the merger or consolidation is not the result of such noncompliance.

b) ICE will not, and will not permit any of its subsidiaries to, sell, lease, transfer, or otherwise dispose of assets, grant any option or other rights to purchase, lease, or otherwise acquire assets, except for (1) sales of inventory in the normal course of business, (2) in a transaction authorized by the Bank, and (3) sales of assets at fair value for an amount not exceeding US$20 (in millions) (or its equivalent in other currencies) in any year.

c) ICE will not subscribe any agreement whereby ICE agrees or commits to share with a third party the income earned, either directly or indirectly, from the works built using the financing provided by the entities shown in the above table.

d) ICE will not, and will not permit any of its subsidiaries to, create or allow encumbrances on any of its assets, either those owned now or acquired in the future, and will not, and will not permit any of its subsidiaries to, assign any rights to obtain income from works financed by the Bank.

e) ICE will, and will cause each of its subsidiaries to, obtain insurance policies from responsible and reputable insurance associations or companies, in such amounts and covering such risks as are generally carried by companies engaged in similar businesses and that own similar properties in the same general areas where the Borrower or its subsidiaries operate.

f) ICE will, and will cause each of its subsidiaries to, substantially comply with the applicable Laws, Statutes, Regulations, and Orders, and such compliance shall include, among other, compliance with Environmental Laws, except to the extent that noncompliance is not reasonably expected to have a Substantial Negative Impact.

As of December 31, 2016, financial covenants in connection with loan agreements meet the established limits, except for the following cases, which have their respective waivers:

(Continued)

Noncompliance with the terms and conditions of loan agreements - CAF

In October 2016, ICE takes the corresponding steps before the Andean Development Corporation (CAF) to request the approval of the waiver of noncompliance as of December 31, 2016 with clause 6.01 “Affirmative covenant” established in the loan agreement subscribed in April 2008 for a total of US$100 (in millions) and in the amendment to such agreement signed on March 30, 2012, where sections (l), (m), and (n) determine that the established levels to be complied with are as follows:

COVENANT RATIOS	AUTHORIZED CAP
Loan agreement: CAF	
Total liability / Equity	0.80 or less
EBITDA / Debt service	1.6 or higher
Debt / EBITDA	4.5 or less

Through Official Letter DPE-C-002/2017 of February 3, 2017, CAF authorized the waiver requested by ICE of noncompliance as of December 31, 2016 with the aforementioned financial ratio. As of that date, the financial ratios “Total liability/Equity” (1.00) and “Debt/EBITDA” (5.87) are not complied with.

Noncompliance with the terms and conditions of loan agreements - IDB No. 1908 and No. 2747 and Reventazón Trust

In December 2016, ICE takes steps before the IDB and Scotiabank (trustee of the Reventazón Trust) to request approval of the waiver of noncompliance as of that date with clause 5.06 (b) for operation IDB No. 1908 and clause 4.06 (b) for operation IDB No. 2747 “Maintenance of financial ratios” established in the loan agreements in the amount of US$250 (in millions) each, subscribed in May 2009 and October 2012, respectively, and section 6.01 (o) (iv) of ICE Side Letter, which indicates that the financial ratio “Long-term debt /Total asset” must be 0.5 times; ICE obtained a ratio of 0.5046 times as of December 31, 2016.

The waivers were authorized by IDB on December 12, 2016 through Official Letter CID/CCR/1669/2016 and for the P.H. Reventazón Trust, on December 15, 2016, due to noncompliance as of December 31, 2016 of the aforementioned financial ratios.

(Continued)

Noncompliance with the terms and conditions of loan agreement - IDB No. 1931

Due to noncompliance as of December 31, 2016 of clause 6.2.11.4 “Financial ratios” of the loan agreement subscribed with IDB in July 2010 in the amount of US$159 (in millions), which indicates that the financial ratio “Adjusted net debt/Adjusted total assets” must be 0,42 times; ICE obtained an ratio of 0,47 times as of December 31, 2016. ICE takes steps as of November 2016 to request the respective waiver, which was approved by IDB through Official Letter dated December 14, 2016.

Noncompliance with the terms and conditions of loan agreement - KfW

Due to noncompliance as of December 31, 2016 of clause 5.3.d of the loan agreement subscribed with Kreditanstalt für Wiederaufbau (KfW) in the amount of US$235 (in millions), which indicates that the financial ratio “Net debt/Total adjusted asset” must be 0.42 times; ICE Group obtained an ratio of 0.47 times as of December 31, 2016. ICE Groups takes steps in November 2016 to request the respective waiver, which was approved by KfW through Official Letter dated December 13, 2016.

Noncompliance with the terms and conditions of loan agreements - Bank of New York Mellon

Due to noncompliance as of December 31, 2016 of clause 6.01 of the loan agreement subscribed with the Bank New York Mellon, which indicates that the financial ratio “Total consolidated debt/Total asset” must be 0.42 times; ICE Group obtained an ratio of 0.47 times as of December 31, 2016. ICE Groups takes steps in November to request the respective waiver, which was approved by the Bank of New York Mellon through Official Letter dated December 15, 2016.

Note 21. Finance lease obligations

As of December 31, 2016 and 2015, finance lease obligations are as follows:

	Interest rate	Year of maturity		Balances as of December 31, 2016 Total	2016 Long term	2016 Short term	2015 Total	2015 Long term	2015 Short term
Trusts in colones									
Telecommunications building	Variable 7.35% (2015: variable 9.55%)	2030	¢	19,844	19,066	778	20,622	19,888	735
RANGE	Variable 11.10% (2015: variable 11.09%)	2034		14,330	14,176	153	5,924	5,924	-
Reventazón Hydroelectric Power Plant	Variable 8.75%	2033		236,338	229,585	6,753	-	-	-
Trusts in U.S. dollars									
Reventazón Hydroelectric Power Plant	Variable 8.75%	2033		238,856	231,923	6,933	-	-	-
			¢	**509,368**	**494,750**	**14,618**	**26,546**	**25,811**	**735**

Loans payable denominated in U.S. dollars amount to US$429 (in millions).

(In millions of colones)

The balances shown are related to obligations arising from finance lease agreements subscribed with the trusts, which will be financing the execution of the aforementioned projects.

For the Reventazón Hydroelectric Power Plant, the liability derived from the accounting of the respective asset is related to obligations assumed by the trust in colones and in U.S. dollars.

		As of December 31,	
		2016	**2015**
Trusts in colones			
Telecommunications buildings	¢	19,844	20,622
RANGE		14,330	5,924
Reventazón Hydroelectric Power Plant		236,338	-
Trusts in U.S. dollars			
Reventazón Hydroelectric Power Plant		238,856	-
		509,368	**26,546**
Short term		14,618	735
Long term		494,750	25,811
	¢	**509,368**	**26,546**

(Continued)

(In millions of colones)

Note 22. <u>Accounts payable</u>

Accounts payable are as follows:

		As of December 31,	
		2016	**2015 (Restated)***
Materials suppliers	¢	57,373	32,678
Taxes		15,940	14,975
Payroll and employee withholdings		7,752	8,377
Other creditors		60,080	64,037
Total		**141,145**	**120,067**
Less reclassification of long-term portion	**¢**	**(9,241)**	**(7,398)**
Short-term	**¢**	**131,904**	**112,669**

(*) See note 27.

Note 23. <u>Prepaid income</u>

Short- and long-term prepaid income is as follows:

		As of December 31,			
		2016		**2015**	
		Long-term	**Short-term**	**Long-term**	**Short-term**
Prepaid mobile services (1)	¢	-	5,443	-	6,259
Government grants (2)		6,071	308	6,378	307
Transfer of spare parts - materials (3)		-	8,958	-	8,775
Other		-	1,490	-	1,418
Total	**¢**	**6,071**	**16,198**	**6,378**	**16,759**

The nature of the main prepaid income booked by ICE Group is described 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 balance sheet when the money is received by ICE Group from customers and wholesalers, and income and expenses are recognized in the statement of income and expenses as end users use the services.

(2) Government grants:

Within the framework of the Japanese initiative known as Cool Earth Partnership, the Government of Japan donated to ICE an amount of approximately US$10.5 to build the Photovoltaic System located in Sabana Norte, with a power output of 3kW, which is expected to generate 3.5 Kh, 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. Local or international government grants are recognized by ICE Group in the consolidated balance sheet when they are granted, and they are transferred to the consolidated statement of income and expenses systematically according to the useful life of the asset related to the grant received.

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

(3) Transfer of spare parts - materials:

This transfer in favor of ICE Group corresponds to costs related to spare parts, assets, and tools required for maintenance of Toro III and Garabito Power Plants, on which ICE Group made no expenditure. This income is realized in the consolidated statement of income and expenses when the contractually established maintenance services are rendered and inventories ceded to ICE Group are used.

(Continued)

(In millions of colones)

Note 24. Accrued expenses for employer obligations

Accrued expenses for employer obligations are as follows:

		As of December 31,	
		2016	2015 (Restated)*
Back-to-school bonus	¢	20,684	22,144
Vacations		32,457	27,156
Statutory Christmas bonus		1,733	2,102
Occupational hazard insurance		485	8,862
Work mobility compensation		8	-
Total	**¢**	**55,367**	**60,264**

(*) See note 27.

The movement in accrued expenses for employer obligations is as follows:

		Statutory Christmas bonus	Back-to-school bonus	Vacations	Occupational hazard insurance	Third and fifth biweekly salary payment	Work mobility compensation	Total
2016								
Opening balance	¢	2,102	22,144	27,156	8,862	-	-	60,264
Expensed - investments		10,084	3,709	6,796	2,957	8,489	878	32,913
Expensed - operations		17,508	17,631	21,361	-	-	-	56,500
Used		(27,961)	(22,800)	(22,856)	(11,334)	(8,489)	(870)	(94,310)
Total	**¢**	**1,733**	**20,684**	**32,457**	**485**	**-**	**8**	**55,367**

		Statutory Christmas bonus	Back-to-school bonus	Vacations	Occupational hazard insurance	Third and fifth biweekly salary payment	Work mobility compensation	Total
2015								
Opening balance	¢	2,141	22,370	26,592	7,894	-	2,990	61,987
Expensed - investments		12,000	3,487	11,071	3,871	7,153	2,815	40,397
Expensed - operations		18,598	18,061	17,840	-	-	-	54,499
Used		(30,637)	(21,774)	(28,348)	(2,903)	(7,153)	(5,805)	(96,620)
Total	**¢**	**2,102**	**22,144**	**27,156**	**8,862**	**-**	**-**	**60,264**

As of December 31, 2016, the total balance of accrued vacations is ¢32,457 (2015: ¢27,156), of which ¢28,084 correspond to the permanent employee payroll (2015: ¢23,582) and ¢4,373 correspond to the project employee payroll (2015: ¢3,574).

(In millions of colones)

Movement in the defined benefit liability (vacations)

The table below shows a reconciliation of the opening and closing balances of the defined benefit liability (vacations) and its components:

		As of December 31, 2016	2015
Defined benefit obligation at the end of the prior period	¢	23,582	21,275
Cost of services of the current period		22,472	19,672
Interest on the obligation		713	787
Actuarial (gains)/losses		(1,377)	1,715
Allowance for the benefits paid by ICE Group		(17,306)	(19,866)
Defined benefit obligation at the end of the period	**¢**	**28,084**	**23,582**

(*) See note 27.

RACSA subsidiary

Movement in the defined benefit liability (vacations)

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

		As of December 31, 2016
Defined benefit obligation at the end of the prior period	¢	359
Cost of services of the current period		280
Interest on the obligation		17
Actuarial (gains)/losses		(258)
Defined benefit obligation at the end of the period	**¢**	**398**

(*) See note 25.

(In millions of colones)

Actuarial assumptions

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

	As of December 31,	
	2016	**2015**
Real discount rate(s)	1.02%	0.75%
Nominal discount rate(s)	5.06%	4.78%
Expected salary increase rate(s)	4%	4%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	4%	4%

Actuarial assumptions – RACSA subsidiary

	As of December 31, 2016
Real discount rate(s)	1.01%
Nominal discount rate(s)	5.05%
Expected salary increase rate(s)	4.50%
Average retirement age for current employees (years):	
Men	62
Women	60
Long-term inflation rate	4%

The actuarial assumptions significant to the determination of the defined benefit obligation are: the discount rate (nominal and real), expected salary increase rate, and average retirement age. 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:

(Continued)

(In millions of colones)

			As of December 31, 2016		
			Discount rate variation		
			4.56%	5.06%	5.56%
Salary increase rate variation	3.50%	¢	28,063	28,062	**28,061**
	4.00%	¢	28,085	**28,084**	28,083
	4.50%	¢	**28,107**	28,106	28,105

The minimum value of the obligation (¢28,061) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and with the highest discount rate (5.56%). The maximum value of the obligation (¢28,107) occurs in the opposite case. The calculated value of ¢28,084 is at the mid-range of this sensitivity analysis.

			As of December 31, 2015		
			Discount rate variation		
			4.28%	4.78%	5.28%
Salary increase rate variation	3.50%	¢	23,563	23,562	**23,561**
	4.00%	¢	23,583	**23,582**	23,581
	4.50%	¢	**23,602**	23,601	23,600

The minimum value of the obligation (¢23,561) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and with the highest discount rate (5.28%). The maximum value of the obligation (¢28,602) occurs in the opposite case. The calculated value of ¢23,582 is at the mid-range of this sensitivity analysis.

As of December 31, 2016, the average retirement period was 18.2 years, and the average age 43.4 years.

Sensitivity analysis – RACSA Subsidiary

			As of December 31, 2016		
			Discount rate variation		
			4.55%	5.05%	5.55%
Salary increase rate variation	4.00%	¢	397	397	**397**
	4.50%	¢	398	**398**	398
	5.00%	¢	**398**	398	398

(In millions of colones)

The minimum value of the obligation (¢397) occurs if the salary increase rate is the lowest in the sensitivity range (4%) and with the highest discount rate (5.55%). The maximum value (¢398) occurs in the opposite case. The calculated value of ¢398 is at the mid-range of this sensitivity analysis.

As of December 31, 2016, the average retirement period was 25.6 years, and the average age 35.7 years.

Note 25. Severance benefits

Severance benefits are as follows:

		As of December 31,					
		2016			**2015**		
		Long-term	**Short-term**	**Total**	**Long-term**	**Short-term (Restated)***	**Total**
Severance benefits	¢	106,829	26,650	133,479	122,918	21,740	144,658
Total	**¢**	**106,829**	**26,650**	**133,479**	**122,918**	**21,740**	**144,658**

(*) See note 27.

(In millions of colones)

The movement in severance benefits is as follows:

		Severance benefits
2016		
Opening balance	¢	144,658
Expensed - investments		15,405
Expensed - operations		19,923
Used		(58,304)
Adjustments due to effect of actuarial stud		11,797
Total	**¢**	**133,479**

		Severance benefits
2015		
Opening balance	¢	123,690
Expensed - investments		8,989
Expensed - operations		24,283
Used		(22,494)
Adjustments due to effect of actuarial stud		10,190
Total	**¢**	**144,658**

As of December 31, 2016, of the total severance benefit provision ¢128,393 (2015: ¢126,644), corresponds to the permanent employee payroll.

(Continued)

(In millions of colones)

Movement in defined benefit liability (severance benefits)

The reconciliation of the opening and closing balances of defined benefit liability (severance obligations) and its components is as follows:

		As of December 31,	
		2016	**2015**
Defined benefit obligation at the end of the prior period	¢	126,644	111,221
Cost of services of the current period		6,058	6,491
Interest on the obligation		12,265	11,358
Loss on severance payments		2,009	2,285
Actuarial (gains)/losses		11,797	10,190
Severance payments		(24,003)	(4,298)
Allowance for the benefits paid by ICE Group		(6,970)	(10,603)
Defined benefit obligation at the end of the period	**¢**	**127,799**	**126,644**

RACSA Subsidiary

		As of December 31, 2016
Defined benefit obligation at the end of the prior period	¢	623
Cost of services of the current period		173
Interest on the obligation		31
Actuarial (gains)/losses		348
Allowance for the benefits paid by ICE Group		(581)
Defined benefit obligation at the end of the period	**¢**	**594**

(In millions of colones)

Actuarial assumptions

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

	As of December 31,	
	2016	**2015**
Real discount rate(s)	4.98%	5.76%
Nominal discount rate(s)	9.18%	9.99%
Expected salary increase rate(s)	4%	4%
Average retirement age for current employees (years):		
Men	62	62
Women	60	60
Long-term inflation rate	4%	4%

RACSA Subsidiary

	As of December 31, 2016
Real discount rate(s)	4.63%
Nominal discount rate(s)	8.82%
Expected salary increase rate(s)	4.50%
Average retirement age for current employees (years):	
Men	62
Women	60
Long-term inflation rate	4%

The actuarial assumptions significant to the determination of the defined benefit obligation are: the discount rate (nominal and real), expected salary increase, and average retirement age. 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:

(Continued)

(In millions of colones)

			As of December 31, 2016		
			Discount rate variation		
			8.68%	9.18%	9.68%
Salary increase rate variation	3.50%	¢	127,002	122,185	**117,687**
	4.00%	¢	132,554	**127,396**	122,579
	4.50%	¢	**138,480**	132,946	127,789

The minimum value of the obligation (¢117,687) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and with the highest discount rate (9.68%). The maximum value of the obligation (¢138,480) occurs in the opposite case. The calculated value of ¢127,396 is at the mid-range of this sensitivity analysis.

			As of December 31, 2015		
			Discount rate variation		
			9.49%	9.99%	10.49%
Salary increase rate variation	3.50%	¢	126,244	122,573	**119,133**
	4.00%	¢	130,570	**126,644**	122,971
	4.50%	¢	**135,180**	130,971	127,043

The minimum value of the obligation (¢119,133) occurs if the salary increase rate is the lowest in the sensitivity range (3.50%) and with the highest discount rate 10.49%). The maximum value of the obligation (¢135,180) occurs in the opposite case. The calculated value of ¢126,644 is at the mid-range of this sensitivity analysis.

Racsa Subsidiary

			As of December 31, 2016		
			Discount rate variation		
			8.32%	8.82%	9.32%
Salary increase rate variation	4.00%	¢	588	533	**483**
	4.50%	¢	655	**594**	539
	5.00%	¢	**730**	661	600

The minimum value of the obligation (¢483) occurs if the salary increase rate is the lowest in the sensitivity range (4%) and with the highest discount rate (9.32%). The maximum value of the obligation (¢730) occurs in the opposite case. The calculated value of ¢594 is at the mid-range of this sensitivity analysis.

As of December 31, 2016, the average retirement period was 25.6 years, and the average age 35.7 years.

(Continued)

(In millions of colones)

Note 26. Legal provisions

Legal provisions are as follows:

		As of December 31,	
		2016	**2015 (Restated)***
Legal provision for contingent liabilities (note 41	¢	2,708	3,735
Total	**¢**	**2,708**	**3,735**
Less: current portion		**2,476**	**3,586**
Long-term legal provisions	**¢**	**232**	**149**

(*) See note 27.

The movement in legal provisions is as follows:

		Legal provision for contingent liabilities
2016		
Opening balance	¢	3,735
Expensed - investments		1,924
Expensed - operations		255
Used		(3,206)
Total	**¢**	**2,708**

		Legal provision for contingent liabilities
2015		
Opening balance	¢	16,821
Expensed - investments		4
Expensed - operations		1,384
Used		(14,474)
Total	**¢**	**3,735**

Note 27. <u>Restatement of financial statements</u>

During the year ended December 31, 2016, the figures corresponding to December 31, 2015 and for the year then ended were restated, incorporating retrospective adjustments (see note 2(e)), due to the correction of errors and changes in accounting policies, applied retrospectively through the restatement of each of the items affected in the financial statements from prior periods (see note 2(e)). The impact on the consolidated financial statements of ICE Group is as follows:

(Continued)

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

	Operating assets, net (note 4)	Construction work in progress (note 5)	Materials in transit for investment (note 5)	Long-term investments (note 6)	Cash and cash equivalents (note 7)	Prepaid expenses (note 13)	Service agreements (note 14)	Project design and execution (note 15)	Amortizable items, net	Intangible assets, net (note 17)	Short-term loans payable (note 20)	Securities payable (note 19)	Long-term loans payable (note 20)	Provision for severance benefits (note 25)	Long-term legal provision (note 26)	Short-term and long-term accounts payable (note 22)	Short-term legal provision (note 26)	Accrued expenses for employer obligations (note 24)	Legal provisions	Development reserves	Actuarial gains amd losses	Result of valuation of financial instruments	Retained earnings	Minority interest
Balances as of December 31, 2015, previously reported	₡ 3,700,272	412,325	19,446	206,049	181,160	89,829	35,608	92,965	4,019	65,846	90,945	1,105,467	797,217	145,692	-	111,305	-	43,484	11,071	1,596,476	-	(3,563)	52,255	4,964
Accumulated effect of changes in accounting policies and adjustments for corrections prior to 2015:																								
Adjustment for write-off of improvements in "Other operating assets" (1)	(2,690)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,690)	-	-	-	-
Adjustment for correction of useful lives (2)	(31,778)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31,777)	-	-	-	-
Adjustment for depreciation of public phones (3)	(1,834)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,835)	-	-	-	-
Adjustment for import purchase orders (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,920	-	-	-	(1,920)	-	-	-	-
Modification in the presentation of transaction costs for financial instrument assets and liabilities (5)	-	-	-	1,080	21	-	-	-	(3,907)	-	-	(889)	(1,917)	-	-	-	-	-	-	-	-	-	-	-
Adjustment for costs incurred in the service agreement subscribed by ICE and UNO P.H. Reventazón Trust (6)	-	-	-	-	-	-	(1,458)	-	-	-	-	-	-	-	-	-	-	-	-	(1,457)	-	-	-	-
Change in the amortization period of licenses, software,systems and applications (7)	-	-	-	-	-	-	-	-	-	(723)	-	-	-	-	-	-	-	-	-	(723)	-	-	-	-
Change in the accounting policy for "Provisions, contingent liabilities and contingent assets" (8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,977	(3,977)	-	-	-	-
Recognition of derivative financial instruments (9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,957)	-	5,957	-	-
Adjustment for effect of actuarial studies (severance benefits and vacations) (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	(40,499)	-	-	-	12,024	-	33,055	-	-	(1,987)	-
Adjustment for interest on Reventazón Hydroelectric Power Project (13)	-	(6,431)	-	-	-	-	-	28	-	-	-	-	-	-	-	-	-	-	-	(6,404)	-	-	-	-
Adjustment for reclassification of occupational hazard insurance (14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,893	(7,893)	-	-	-	-	-
Adjustment for reclassification of lawsuits (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,982	-	1,661	-	(4,643)	-	-	-	-	-
Total effect of adjustments for changes in accounting policies and for corrections prior to 2015	(36,302)	(6,431)	-	1,080	21	-	(1,458)	28	(3,907)	(723)	-	(889)	(1,917)	(40,499)	2,982	1,920	1,661	19,917	(8,559)	(23,685)	-	5,957	(1,987)	-
Accumulated effect of changes in accounting policies and adjustments for corrections in 2015:																								
Adjustment for write-off of improvements in "Other operating assets" (1)	(518)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(519)	-	-	-	-
Adjustment for correction of useful lives (2)	10,458	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,458	-	-	-	-
Adjustment for depreciation of public phones (3)	84	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	88	-	-	-	-
Adjustment for import purchase orders (4)	-	-	(276)	-	-	-	-	-	-	-	-	-	-	-	-	(28)	-	-	-	(249)	-	-	-	-
Modification in the presentation of transaction costs for financial instrument assets and liabilities (5)	-	-	-	(117)	39	-	-	-	119	-	-	87	(46)	-	-	-	-	-	-	-	-	-	-	-
Adjustment for costs incurred in the service agreement subscribed by ICE and UNO P.H. Reventazón Trust (6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in the amortization period of licenses, software, systems and applications (7)	-	-	-	-	-	-	-	-	-	(1,237)	-	-	-	-	-	-	-	-	-	(1,237)	-	-	-	-
Change in the accounting policy for "Provisions, contingent liabilities and contingent assets" (8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,312)	2,311	-	-	-	-
Recognition of derivative financial instruments (9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(549)	-	549	-	-
Reclassification of costs - DIPOA building (10)	-	338	-	-	-	-	(338)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustment for mobile terminals (11)	-	-	-	-	-	2,933	-	-	-	-	-	-	-	-	-	-	-	-	-	2,932	-	-	-	-
Adjustment for effect of actuarial studies (severance benefits and vacations) (12)	-	-	-	-	-	-	-	-	-	-	-	-	-	17,725	-	-	-	(4,774)	-	(1,825)	(12,396)	-	(1,188)	-
Adjustment for interest on Reventazón Hydroelectric Power Project (13)	-	(1,276)	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	(1,275)	-	-	-	-
Adjustment for reclassification of occupational hazard insurance (14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	969	(969)	-	-	-	-	-
Adjustment for reclassification of lawsuits (15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,833)	-	1,925	-	769	-	-	-	-	-
Adjustment for reclassification of loans payable from short to long term	-	-	-	-	-	-	-	-	-	-	(119)	-	119	-	-	-	-	-	-	-	-	-	-	-
Adjustment for reclassification of amortization of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Alignment adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(528)	-	668	-	-	2,007	-	(2,007)	-
Variation in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72	(72)
Total effect of adjustments for changes in accounting policies and for corrections in 2015	10,024	(938)	(276)	(117)	39	2,933	(338)	1	119	(1,237)	(119)	87	74	17,725	(2,833)	(556)	1,925	(3,137)	(2,512)	10,136	(10,389)	549	(3,123)	(72)
Subtotal adjustments	(26,278)	(7,369)	(276)	963	60	2,933	(1,796)	29	(3,788)	(1,960)	(119)	(802)	(1,844)	(22,774)	149	1,364	3,586	16,780	(11,071)	(13,550)	(10,389)	6,506	(5,110)	(72)
Balances as of December 31, 2015, restated	₡ 3,673,994	404,956	19,170	207,012	181,220	92,762	33,812	92,994	231	63,886	90,826	1,104,665	795,373	122,918	149	112,669	3,586	60,264	-	1,582,926	(10,389)	2,943	47,146	4,892

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

	Income from services (note 29)	Operation and maintenance costs (note 30)	Operation and maintenance of leased equipment (note 31)	Depreciation of operating assets	Production management	Administrative expenses (note 33)	Marketing expenses (note 34)	Preinvestment studies (note 36)	Preliminary studies (note 35)	Other operating expenses (note 37)	Other expenses and other income (note 38)	Other income - foreign exchange differences (note 38)	Other income (note 38)	Other commission expenses (note 38)	Other expenses - foreign exchange differences (note 38)	Other expenses (note 38)	Minority interest	Surplus (deficit), net
Balances as of December 31, 2015, previously reported	¢ 747,777	251,482	97,069	285,315	86,139	105,337	286,529	4,917	25,704	11,009	32,598	21,038	92,015	10,004	5,103	63,696	45	(11,437)
Accumulated effect of changes in accounting policies and adjustments for corrections in 2015:																		
Adjustment for write-off of improvements in "Other operating assets" (1)	-	349	-	-	177	-	(7)	-	-	-	-	-	-	-	-	-	-	(519)
Adjustment for correction of useful lives (2)	-	-	-	(10,458)	-	-	-		-	-	-	-	-	-	-	-	-	10,458
Adjustment for depreciation of public phones (3)	-	-	-	(88)	-	-	-	-	-	-	-	-	-	-	-	-	-	88
Adjustment for import purchase orders (4)	-	-	-	-	-	-	-	-	-	-	-	36	-	-	285	-	-	(249)
Change in the amortization period of licenses, software, systems and applications (7)	-	344	45	-	698	-	96	-	52	1	-	-	-	-	-	-	-	(1,236)
Change in the accounting policy for "Provisions, contingent liabilities and contingent assets" (8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,311)	-	2,311
Recognition of derivative financial instruments (9)	-	-	-	-	-	-	-	-	-	-	284	-	-	833	-	-	-	(549)
Adjustment of mobile terminals (11)	-	-	-	-	-	-	(2,932)	-	-	-	-	-	-	-	-	-	-	2,932
Adjustment for effect of actuarial studies (severance benefits and vacations) (12)	-	1,029	92	-	140	1,188	246	2	293	-	-	-	-	-	-	21	-	(3,011)
Adjustment for interest on Reventazón Hydroelectric Power Project (13)	-	-	-	-	-	-	-	-	-	1,275	-	-	-	-	-	-	-	(1,275)
Adjustment for reclassification of income (17)	(2,077)	-	-	-	-	-	-	-	-	-	-	-	2,077	-	-	-	-	-
Adjustment for reclassification of amortization of intangible assets (18)	-	(460)	-	2,002	-	(331)	(1,212)	-	-	-	-	-	-	-	-	-	-	1
Variation in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17	17
Total effect of adjustments for changes in accounting policies and for corrections in 2015	(2,077)	1,262	137	(8,544)	1,015	857	(3,809)	2	345	1,276	284	36	2,077	833	285	(2,290)	17	8,967
Subtotal adjustments	(2,077)	1,262	137	(8,544)	1,015	857	(3,809)	2	345	1,276	284	36	2,077	833	285	(2,290)	17	8,967
Balances as of December 31, 2015, restated	¢ 745,699	252,744	97,206	276,771	87,154	106,194	282,720	4,919	26,049	12,285	32,882	21,074	94,092	10,837	5,388	61,406	62	(2,470)

(Continued)

(1) Adjustment for write off of improvements in "Other operating assets"

The analysis of the improvements corresponding to assets depreciated using the units of production method (depreciation by use) determined that there is no technical criteria or supporting documentation for some improvements to provide evidence of the increase in the economic life or production capacity of the asset related to such improvement. Consequently, it was decided to write off such improvements.

(2) Adjustment for the correction of useful lives

In 2009 the Telecom Segment implemented the separation of productive assets into network elements. Previously, a single group of assets named "telecommunication stations" was booked. The separation of this asset into network elements entailed a change in the useful life, which began to be applied for network elements acquired as of 2009. The change in useful life was made following a revaluation of the expectations regarding those assets. Due to omission or oversight, the change in useful life was not applied in a timely manner to those assets that still had a carrying amount and were in stock as of the 2008 close. Consequently, in order to align the useful lives of the network elements in stock as of the 2008 close with that assigned to network elements starting in 2009, considering that they are similar assets, the adjustment was made for the effects of the uncorrected useful lives of the assets with a carrying amount as of 2008.

(3) Adjustment for depreciation of public phones

During 2014 and 2013 ICE made the decision to write off assets corresponding to public phones. However, by mistake, the decision and its implementation was not communicated to those in charge of the accounting records at that time; therefore, the corresponding accounts were not adjusted.

(4) Adjustment for import purchase orders

The analysis of the "materials in transit" and "accounts payable for project imports" accounts found inconsistencies in the balances payable to vendors, due to an incorrect application of the exchange rate and duplicate liabilities.

(5) Modification in the presentation of transaction costs for financial instrument assets and liabilities

Adjustment due to a change in the accounting policy for the presentation of transactions costs (costs incurred in the acquisition of financial instrument assets and liabilities), which were booked in amortizable items, separate from the asset and liability accounts that originated those transactions. The new accounting policy presents costs along with the asset and liability that originate them (see note 3 (b)).

(6) Adjustment for costs incurred in the service agreement subscribed by ICE and UNO P.H. Reventazón Trust

Adjustment to correct an error arising from the application of an incorrect exchange rate when recognizing the costs for the billing of the construction services provided by ICE to P.H. Reventazón Trust during 2014. The exchange rate used by ICE was that agreed with the Trust for the billing of the construction services, which was different from the average exchange rate at which ICE incurred the costs. This situation caused an increase in the services agreement account due to exchange rate differences.

(7) Change in the amortization period of licenses, software, systems and applications

Management determined that the accounting records of the asset licenses, software and applications (intangible assets), ICE Group's asset system automatically assigned a useful life of three years, without considering cases in which the assets were related to purchase agreements with terms other than three years, which was not consistent with the accounting policy indicated for that purpose. Thus, the useful lives was adjusted in those cases, to match the term agreed with the vendor.

(8) Change in the accounting policy for "Provisions, contingent liabilities and contingent assets"

Adjustment due to change in the accounting policy for "Provisions, contingent liabilities and contingent assets" related to judicial and tax proceedings, which incorporates the use of probability and professional judgment of specialized personnel within ICE. This change in the determination of provisions to cover judicial or tax related proceedings was applied retrospectively, based on the documentation available and managed by the Corporate Legal Department (see note 41).

(9) Recognition of derivative financial instruments

Adjustment due to the recognition of financial instruments and derivatives at fair value, recognizing gains or losses arising from their valuation in the statement of income and expenses for the year. It was adjusted retrospectively due to the effect of changing the derivatives existing prior to 2016 to valuation at fair value through profit or loss (see note 2 (e) (vii)).

(10) Reclassification of costs accrued in the construction of the administrative offices building (Edificio Desarrollo Inmobiliario para Oficinas Administrativas, DIPOA)

Reclassification of costs accrued in the construction of the building named DIPOA, booked in other assets under the account "service agreements", while they should have been booked in the account "construction work in progress".

(11) Adjustment for mobile terminals

During 2015, the cost of 24,987 terminals sold during that year was recognized in profit or loss; the correct procedure would have been to amortize them over the term of the sales contracts.

(12) Adjustment for effect of actuarial studies (severance benefits and vacations)

Adjustment due to the recognition of the accounting effects of actuarial studies on those benefits to employees with severance benefits and vacation, measured from 2014 to 2016. This change represents the adoption of the new policy, and led to the retrospective application of its effects to prior periods (see note 2 (e) (viii)).

(13) Adjustment interest of Reventazón Hydroelectric Power Project

Correction of the distribution of finance charges corresponding to construction work in progress during 2014 and 2015, which were booked in Reventazón Hydroelectric Project.

(14) Adjustment for reclassification of occupational hazard insurance

Reclassification of the balance related to the accumulated cost of occupational hazard insurance, which was booked under other liabilities – severance benefits, given that due to its nature the item is an accrued amount payable that is not subject to a probability of occurrence. Thus, it was reclassified to accrued expenses for employer obligations – short-term liability.

(15) Adjustment for reclassification of lawsuits

Reclassification resulting from the change in the accounting policy related to "Provisions, contingent liabilities and contingent assets". This change intends to present the legal provision making the corresponding separation between short and long term.

(Continued)

(In millions of colones)

Note 28. **Memoranda accounts**

		As of December 31,	
		2016	**2015**
Guarantees received:			
Performance bonds (1)	¢	146,357	277,835
Collection agents (2)		3,762	3,597
Bid bonds (3)		559	4,362
Tenders		8	8
Guaranty deposits		178	211
Subtotal		150,864	286,013
Other guarantees received - Sundry services		1,949	1,072
Credit memoranda accounts - Other - Compliance		1,522	1,461
Consigned assets		34	-
Contingent assets:			
Savings and loan fund		28,756	29,701
CNFL Employees Association (ASEFYL)		13,549	13,786
Compliance - procurement		2,323	5,475
Materials in transit		1,624	59
Interest in assets		834	-
Collection of electricity services		1,131	1,002
Materials loan		63	114
Employee guarantees		46	213
Rental of posts		785	141
Performance bonds - labor		19	165
Guaranty deposits (electricity consumption)		266	264
ICE easement - Cote Plant		-	7
Valle Central Wind Power Plant		81	78
CNFL performance bonds		840	-
Subtotal		50,317	51,005
Contingent liabilities:			
Payment arrangement - financing of appliances		144	28
Total	¢	**204,830**	**339,579**

(Continued)

(1) Performance bonds

Performance bonds correspond to bonds issued to guarantee that the goods and services offered by a supplier will be delivered or rendered to ICE in accordance with the agreed terms and that, in the event of noncompliance, ICE will be compensated.

(2) Collection agents

Collection agents corresponds to guarantees that ICE received from external collection agents to ensure the recovery of public funds held in the custody of 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 ICE's tender processes and, if awarded the contract, that the bidders will comply with the procedures established in the corresponding award.

Note 29. Income from services

Regulation on Electricity Services

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

On March 19, 2012, through Decision RJD-017-2012 published in Official Gazette No. 74 dated April 17, 2012, the Regulatory Committee published the methodology for the extraordinary adjustment of electricity rates related to fuel expenses, based on the CVC methodology. ARESEP applied this methodology since January 1, 2013.

This methodology allows for a faster recovery of the difference between the estimated and actual prices of fuels for thermal power generation because such methodology involves a quarterly review in order to perform the necessary adjustments to the rate schedules to be applied in the following quarter.

(In millions of colones)

Regulation on Telecom Services

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

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

Note 30. Operation and maintenance costs

Operation and maintenance costs include, among other, costs related to fuel consumption to generate power by owned or leased plants. The breakdown of the costs incurred in thermal generation is as follows:

		For the year ended December 31,	
		2016	**2015**
Thermal power plant:			
Moín I		1,088	554
Moín III		838	2,719
Moín II		535	3,170
Other		1,050	1,110
Total	**¢**	**3,511**	**7,553**

In addition to the cost of fuel indicated in the previous table, ICE Group incurred in costs for the same concept related to the Garabito plant in the amount of ¢11,421 (2015: ¢15,495), which were booked in the operation and maintenance equipment under lease agreements account (see note 31).

(In millions of colones)

Note 31. Operation and maintenance of equipment under operating leases

Operation and maintenance costs of equipment under operating leases are as follows:

		For the year ended December 31,	
		2016	**2015 (Restated)***
ICE:			
Thermal generation	¢	46,552	50,247
Hydraulic generation		21,263	24,931
Geothermal generation		10,006	10,683
Substations		6,626	6,558
Telecom leases		4,023	3,215
Transmission lines		3,206	3,450
Subtotal		**91,676**	**99,086**
**Elimination of internal consumption of services		(1,817)	(1,880)
Total	**¢**	**89,859**	**97,206**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

(1) Includes fuel costs in the amount of ¢11,421 (2015: ¢15,495).

In 2016, the costs of the operating leases of the plants mentioned above amount to ¢69,059 (2015: ¢70,719).

The lease agreements for telecommunications equipment, transmission equipment and power plants, excluding agreements that comply with the policy on operating assets and other operating assets under finance leases, are booked and classified as operating leases for financial and tax purposes, as follows:

Service order No.	Lessor	Date of agreement	Starting date	Approximate expiration date		Amount of agreement	Total paid	Balance of service order as of December 31, 2016	Paid in 2016	No. of installments	Amount of installment	Purchase option		Expense booked in 2016	Expense booked in 2015	Frequency	Purpose of the agreement
	General features of the agreement					**In millions of U.S. dollars**											
No order	Garabito Thermal Power Project Trust (1)	05-Nov-07	01-Jul-10	31-Mar-22	US$	743	418	324	63	142	5	213	¢	33,868	32,990	Monthly	Lease of Garabito Thermal Power Plant
No order	Cariblanco Securitization Trust (1)	16-Aug-00	29-Feb-08	31-Dec-19		304	230	75	25	147	2	8		13,436	13,450	Monthly	Lease of Cariblanco Hydroelectric Power Plant
333059	Las Pailas Geothermal Power Plant (2)	07-Mar-07	28-Mar-12	31-Dec-23		240	89	152	19	24	8	-		9,818	10,263	Half-yearly	Lease of Las Pailas Geothermal Power Plant
No order	Toro III Power Plant Trust (1) and (4)	01-Jun-13	30-Jun-13	30-Nov-24		131	35	97	9	142	$1	-		5,082	5,106	Monthly	Lease of Toro III Power Plant
351643	Administrative Board of Cartago's Electricity Service (JASEC) (3)	14-Apr-10	04-Dec-13	14-Apr-22		25	9	16	2	20	Between US$1,637 and US$854 (in thousands)	-		1,310	921	Half-yearly	Infrastructure for Tejar Step-down Substation/Easements and expansion tower sites for Río Macho Transmission Line
1691	Peñas Blancas Securitization Trust (1)	16-Aug-00	31-Jan-08	16-Jul-15		119	119	-	4	155	Between US$875 and US$ 725 (in thousands)	19		-	2,254	Monthly	Electicity infrastucture
Subtotal operating leases in U.S. dollars					**US$**	**1,562**	**900**	**664**	**122**				**¢**	**63,515**	**64,984**		
	General features of the agreement							**In millions of colones**									
350702	Cooperativa de Electrificación Rural Guanacaste (5)	16-Feb-10	06-Apr-10	06-Sep-21	¢	87,848	40,497	47,351	5,544	138	Variable between ¢617 and ¢473	Approximately ¢3,541	¢	5,544	5,735	Monthly	Infrastructure for Liberia and Papagayo - Nuevo Colón electricity transmission line
Subtotal operating leases in colones					**¢**	**87,848**	**40,497**	**47,351**	**5,544**				**¢**	**5,544**	**5,735**		
Total operating leases													**¢**	**69,059**	**70,719**		

The main operating lease agreements held by ICE Group are described as follows:

(1) Securitization Trusts

ICE, BCR, and Banco Nacional de Costa Rica subscribed Securitization Trust agreements whereby ICE Group acts as the trustor and beneficiary and the corresponding Banks are named as the trustees. The purpose of the agreements is the independent generation and management of the necessary financial resources to build the Peñas Blancas, Cariblanco, and Toro III Hydroelectric Power Plants, and the Garabito Thermal Power Project.

The trusts may obtain those resources by acquiring commercial loans and by issuing, placing, and managing securities through securitization.

The trusts contract ICE to build the aforementioned plants given its experience in the development of this type of projects. In their capacity as owners, the trusts lease the plants to ICE for terms ranging between 11 and 13 years. At the end of the lease terms, ICE may exercise the purchase option established in each lease agreement.

The main clauses of the trust agreements are summarized below:

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

- Trust assets will be comprised of the following:

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

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

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

- The trustor will appoint the Manager of the Executing Unit, who must be accepted by the trustee (the Manager's hierarchical superior), with all the corresponding rights and responsibilities.

- The trustor and trustee agree that ICE Group will be contracted by the trust through a construction and engineering agreement to undertake construction of the projects.

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

- The Peñas Blancas trust is for a term of 20 years and the Cariblanco, Garabito, and Toro III trusts are for terms of 30 years.

Option to purchase the Peñas Blancas lease

On June 30, 2015, the option to purchase established in the lease agreement subscribed by ICE Group and Banco Nacional de Costa Rica was exercised in the amount of US$19 (in millions). The amount was paid in July 2015, corresponding to the acquisition of the Peñas Blancas Hydroelectric Power Plant.

(2) Las Pailas Geothermal Power Project:

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

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

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

- The lease will be for a term of 12 years with an option to purchase the Las Pailas Geothermal Power Project, starting from the date of satisfactory receipt of the plant by ICE Group.

- The total amount of the lease is US$240 (in millions), including lease installments and maintenance fees.

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

- CABEI will make an investment of up to US$130 (in millions) in construction of the plant.

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

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

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

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

- Should ICE Group elect not to exercise the purchase option, the parties may agree to extend the lease agreement for up to 6 years, which will require an extension to the agreement. ICE Group may exercise the purchase option prior to expiration of the agreement for an amount equivalent to CABEI’s investment not yet recovered.

(3) Tejar Step-down Substation - JASEC

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

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

(4) Toro III Hydroelectric Power Plant

ICE and JASEC subscribed a partnership agreement for the joint development of the Toro III Hydroelectric Power Plant, whereby BCR acts as the trustee and ICE and JASEC as trustors.

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

The partnership agreement subscribed by those entities involves equal participation in respect of rights and obligations and benefits derived from the construction and commercial exploitation of the Toro III Hydroelectric Power Plant over its useful life. Both entities will participate in the development of the power plant, with an ownership interest of fifty percent (50%).

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

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

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

- Amounts payable by the lessor for monthly infrastructure maintenance costs.

(In millions of colones)

Note 32. Supplemental services and purchases

Supplemental services and purchases are as follows:

		For the year ended December 31, 2016	2015
Telecom:			
National traffic operators	¢	23,126	21,188
Telephone participation		4,663	6,013
Other		4,749	3,588
Total Telecom		**32,538**	**30,789**
Electricity:			
Import:			
Regional Operating Entity (EOR)		8,718	31,019
Edecsa de CV El Salvador		1,402	-
Mercado Eléctrico de El Salvador		1,042	27
San Diego S.A.		168	1,796
Others		1,910	620
Subtotal import		**13,240**	**33,462**
Independent power producers: (1)			
Consorcio Eólico Chiripa, S.A. (BOT agreement)		15,044	10,589
Unión Fenosa Generadora Torito, S.A. (BOT agreement)		14,296	7,708
Unión Fenosa Generadora La Joya, S.A. (BOT agreement)		13,040	9,069
Planta Eólica Orosi, S.A. (BOT agreement)		12,091	1,577
Planta Eólica Guanacaste, S.A. (BOT agreement)		10,350	7,605
Hidroenergía Del General (HDG), S.R.L. (BOT agreement)		10,189	6,643
Hidroeléctrica Doña Julia, S.A.		5,683	4,080
Hidroeléctrica Platanar, S.A.		4,452	2,876
Planta Eólica Tilawind, S.A.		4,150	2,248
Plantas Eólicas, S.A.		3,739	2,596
Molinos de Viento Del Arenal, S.A.		3,516	2,557
Proyecto Hidroeléctrico Río Volcán, S.A.		3,372	2,818
Azúcares el Viejo, S.A.		2,842	1,615
Proyecto Hidroeléctrico Pedro, S.A.		3,078	2,511
Hidroeléctrica Río Lajas, S.A.		3,028	1,874
Ingenio Taboga, S.A.		2,238	1,407
Planta Eólica Vientos del Este, S.A.		2,115	48
Planta El Ángel, S.A.		1,697	534
Aeroenergía, S.A.		1,288	793
Hidroeléctrica Venecia, S.A.		1,162	812
Empresas Eléctricas Matamoros, S.A.		1,105	790
Hidroeléctrica Caño Grande, S.A.		911	635
Hidroeléctrica Zarcas, S.A.		-	1,789
Geoenergía de Guanacaste, Ltda.		-	1,439
Inversiones la Manguera, S.A.		-	856
Other		4,747	1,929
Subtotal		**124,133**	**77,398**
Purchases for export:			
Regional Operating Entity (EOR)		10,304	11,123
Total Electricity		**147,677**	**121,983**
Total	**¢**	**180,215**	**152,772**

(1) Independent power producers

ICE executed agreements with several independent power producers for the purchase of electric power pursuant to Law No. 7200 "Law Authorizing the Autonomous or Parallel Generation of Electricity", which declares the purchase of electricity by ICE from private companies that meet the conditions established in that Law to be a matter of public interest. This Law provides for two systems or chapters: Chapter I, "Autonomous or Parallel Generation", and Chapter II, "Purchase of Power under the Competition System", which give rise to BOO (Build, Own and Operate) and BOT (Build, Operate, and Transfer) agreements, respectively.

As of December 31, 2016, ICE has subscribed six power purchase agreements under Chapter II that correspond to BOT (Built, Operate, and Transfer) agreements with the following independent power producers: Unión Fenosa Generadora La Joya, S.A.; Hidroenergía del General (HDG), S.R.L.; Planta Eólica Guanacaste, S.A., Consorcio Eólico Chiripa, S.A., Unión Fenosa Generadora Torito, S.A., and Eólicas de Orosí Dos, S.A. and PH Chucás, S.A. The Capulín Hydroelectric Power Plant is in the construction phase. During the life of the agreements, those independent power producers must build, operate, and provide maintenance to the corresponding plants. The power generated will be sold exclusively to ICE. At the end of the term of those agreements, the ownership, management, and operation of the plants will be automatically transferred to ICE Group, free of any liens and encumbrances. The corresponding independent power producers or ICE Group may request the early transfer of the power plants.

Some of the most significant terms and conditions established in the aforementioned agreements are as follows:

- The independent power producers will be responsible for the financing, design, purchase of supplies, construction, tests, start-up of operations, and maintenance of the plants. The independent power producers also agree to deliver all the power generated during the term of the agreement subscribed with ICE Group.

- The independent power producers will generate electric power in accordance with the operating quality and standards established in each agreement and will deliver all the power generated to ICE, except for the power required to feed the auxiliary equipment and operate the plants, in accordance with the agreements.

- The independent power producers assume the risks of damages to, loss, or destruction of equipment and facilities during the term of the agreements due to any reason or cause that is directly attributable to the independent power producer, its contractors, subcontractors, or suppliers, excluding force majeure.

- The purchase price for electricity generated is established in each agreement based on the bid price and the price awarded in the corresponding tender processes. The agreements include formulas for price adjustments corresponding to inflation rates that are applied to operating and maintenance costs.

Once the plants launch commercial operations, the independent power producers must obtain and maintain, at their own expense, a minimum of the following insurance policies, based on market availability: occupational hazard and all-risk insurance for physical loss.

ICE Group may suspend the delivery of energy from the independent power producers and shall be released from payment for power during the suspension period for the following reasons:

- Alteration of meters;
- Noncompliance in relation to a condition at the point of delivery that is the responsibility of the independent power producer;
- The inability of the independent power producer to supply power in accordance with the stipulated operating parameters;
- Failure to renew performance bonds;
- Failure to renew insurance policies.

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

For independent power producers who have subscribed agreements under Chapter I of Law No. 7200, the following three types of agreements are in effect:

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

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

ICE will not make any payments for the power delivered by the independent power producer exceeding of the maximum power output agreed. Electricity received in light of these agreements is paid at the rates in effect set by ARESEP upon delivery.

Since enactment of Law No. 7200 in 1990, ICE Group subscribed agreements in accordance with Chapter I of that Law. Starting 2009, after the expiration of the agreements subscribed in the 1990s, for which the maximum maturity terms were 15 years, ICE Group renewed such agreements for the remaining term of the concession agreements (20 years). Currently, agreements are being renewed when companies are awarded concessions to use water for hydroelectric power generation and concessions awarded by ARESEP to offer public electric power generation services. Currently, agreements are subscribed with 28 companies, i.e. eight wind power, two sugar refinery, and 18 hydroelectric power agreements.

Additionally, starting in 2012, once the rates for new plants were published by ARESEP and the new regulations to Chapter I of Law No. 7200 were also published, ICE Group started the process of selection of projects for which new agreements were to be signed. Through Call for bids No. 01-2012 published in June 2012, five wind and six hydroelectric power projects were selected, and agreements were signed with the wind power projects Tilawind, Campos Azules and Altamira in Tilarán, and Vientos de la Perla and Vientos de Miramar in Liberia, which began operations between the first quarter of 2015 and the first quarter of 2017. Of the hydroelectric power projects, an agreement was signed only with El Ángel Ampliación, and it is currently in operation.

Call for bids No. 02-214 was published in February 2014, and its result was confirmed on August 29 once general management rejected the appeal filed by one of the participants. Through this second call for bids, 2 wind and 4 hydroelectric power plant projects were selected, of which one refused the selection. In December 2015, the Vientos del Este Wind Power Plant began operations and generates 9 MW. In July 2016 Mogote Wind Power Plant began operations, and generates 20 MW. The agreements for the hydroelectric power projects are expected to be signed during the second semester of 2017.

(Continued)

Rate adjustments for independent power plants

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

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

Ruling RIE 099-2016 dated November 17, 2016 was published in the Official Gazette on November 22, 2016, which authorized the rate setting for biomass plants (bagasse), in conformity with the "Rate setting methodology according to the typical cost structure of a model plant for electricity generation with sugarcane bagasse for sale to ICE and indexation formula."

Transfer of the Geoenergía de Guanacaste Ltda. Hydroelectric Power Plant to ICE Group

On March 25, 2015, the Miravalles 3 Geothermal Power Plant was transferred to ICE. The plant operated under a BOT agreement for a 15-year term, since the start of operations by Geoenergía de Guanacaste Ltda.

The purchase of energy from independent power producers under Law No. 7200 increased mainly due to favorable weather conditions for hydroelectric power generation and to more wind power generation caused by strong winds occurring in the period. Additionally, in ruling RIE-107-2015 dated October 23, 2015, ARESEP approved a rate adjustment in favor of ICE to recognize expenses for the purchase of energy from independent power producers (see note 13(1)).

(In millions of colones)

Note 33. Administrative expenses

Administrative expenses are as follows:

			For the year ended December 31,	
			2016	**2015**
	Salaries	¢	67,600	64,392
	Services		18,279	15,134
	Use of service centers		7,440	8,506
	Current transfers		1,203	2,051
	Depreciation of other operating assets		1,569	1,914
	Other		10,927	14,544
	Subtotal		**107,018**	**106,541**
*	Elimination of internal consumption of services		(166)	(347)
	Total	**¢**	**106,852**	**106,194**

* Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

Note 34. Marketing expenses

Marketing expenses are as follows:

			For the year ended December 31,	
			2016	**2015 (Restated)***
	Materials and supplies	¢	68,438	68,480
	Salaries		55,674	74,043
	Services		50,831	55,041
	Use of service centers		20,823	46,676
	Current transfers		6,451	8,540
	Depreciation of other operating assets		3,902	4,456
	Other		29,910	28,118
	Subtotal		**236,029**	**285,355**
**	Elimination of internal consumption of servic		(443)	(2,635)
	Total	**¢**	**235,586**	**282,720**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

(In millions of colones)

Note 35. Preliminary studies

Preliminary studies are as follows:

		For the year ended December 31, 2016	For the year ended December 31, 2015 (Restated)*
Salaries	¢	10,750	13,119
Use of service centers		8,882	9,453
Services		1,446	929
Current transfers		829	699
Depreciation		140	354
Materials and supplies		56	197
Other		1,933	1,469
Subtotal		**24,036**	**26,220**
** Elimination of internal consumption of services		(2)	(171)
Total	**¢**	**24,034**	**26,049**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

Note 36. Preinvestment studies

Costs incurred for preinvestment studies are as follows:

		For the year ended December 31, 2016	For the year ended December 31, 2015
Los Llanos (1)	¢	4,519	3,934
Ayil Hydroelectric Project (2)		174	557
Savegre		12	151
Other		784	277
Total	**¢**	**5,489**	**4,919**

(Continued)

(In millions of colones)

(1) Los Llanos

The Los Llanos Hydroelectric Power Project is located on the Naranjo River basin. If the project's feasibility is approved, it contemplates the addition of the waters of Brujo River to increase the power output to 126 MW, provided that environmental issues under analysis are resolved.

(2) Ayil Hydroelectric Power Project

An agreement was subscribed with indigenous communities regarding the Ayil Hydroelectric Power Project, which will be located in the Cabécar indigenous territory in Bajo Chirripó, Matina, Limón, whereby a term of 3 years is granted to perform project studies related to pioneer roads that require the construction of several bridges.

Note 37. Other operating expenses

Other expenses incurred by ICE Group to ensure the quality of the construction and operation of works owned by third parties are recognized as "Other operating expenses". Additionally, this item includes subsequent mitigation and social compensation costs that exceed the amounts established in the Environmental Management Plan and were not included in the "Baseline" planned and controlled by ICE Group. Other operating expenses are as follows:

		For the year ended December 31,	
		2016	**2015 (Restated) ***
Project Support Center (CAP)	¢	3,835	4,634
Common infrastructure buildings - land		633	-
Improvements to transport network		541	254
International markets		-	634
Chucas Hydroelectric Project		186	606
Internet data center (NAP)		302	195
Torito Hydroelectric Project		152	294
Chapulín Hydroelectric Project		74	237
Advanced mobile services		89	519
Other		3,783	4,911
Subtotal	**¢**	**9,594**	**12,285**
** Elimination of internal consumption of services		(24)	-
Total	**¢**	**9,570**	**12,285**

(*) See note 27.

(**) Internal consumption of electricity and telephone services incurred by the different areas of ICE Group.

(In millions of colones)

Note 38. Other expenses and other income

Other expenses and other income are as follows:

Other income		For the year ended December 31, 2016	For the year ended December 31, 2015 (Restated)*
Interest and other finance income (1)	¢	31,940	32,882
Construction services (3)		13,495	50,415
Foreign exchange differences (2)		8,498	23,248
Investments in other companies		359	326
Other income (4)		36,374	41,503
Total	¢	**90,666**	**148,374**

Other expenses		For the year ended December 31, 2016	For the year ended December 31, 2015 (Restated)*
Interest and other finance expenses (5)	¢	126,294	111,259
Foreign exchange differences (2)		59,411	5,388
Agreements for civil and electromechanical works (3)		17,664	52,577
Other expenses		1,331	8,829
Total	¢	**204,701**	**178,053**

(*) See note 27.

The main transactions are as follows:

(1) Interest includes income on external sector securities.

(2) As a result of foreign currency transactions, during the year ended December 31, 2016, a valuation is performed of assets and liabilities denominated in foreign currency that gives rise to the recognition of foreign exchange income and expenses in the amount of ¢8,498 and ¢59,411, respectively (2015: ¢23,248 and ¢5,388, respectively Monetary assets and liabilities denominated in foreign currency are valued at the exchange rate of ¢556.44 (2015: ¢537.81).

(Continued)

(3) This item includes invoices for percentage of completion or completed works related to agreements subscribed for engineering, design, construction, or other specialized services provided by ICE Group to third parties for projects under construction. The costs related to these construction agreements are booked under "Agreements for civil and electromechanical works".

(4) During the year ended December 31, 2016, ICE Group recognized gains on the following items:

- collection of administrative penalties in the amount of ¢6,318 (2015: ¢5,212)
- third-party power plant leasing and maintenance in the net amount of ¢1,664 (2015: ¢2,057)
- absorption of guarantee deposits received from inactive clients in the amount of ¢1,078 (2015: ¢2,883)
- ICE-ALCATEL litigation compensation in the amount of ¢4,239
- Repair shop services and structures in the amount ¢3,764.

(5) During the year ended December 31, 2016, ICE Group recognized finance expenses mainly corresponding to interest on bank obligations and loans and fees and commissions on management of derivative financial instruments in the amount of ¢112,327 (2015: ¢96,113).

Note 39. Tax regulations

(a) Tax obligations

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

(b) Income Tax

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 reinvest its net profit from the sale of electric power and from any other sources in financing and executing national electrification plans and promoting the electric power industry."

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

Given that ICE Group must reinvest the total net profit it obtains, no taxable income is produced and, therefore, it has no income tax liability. However, the Costa Rican Internal Revenue Service normally imposes income tax withholdings that are subsequently applied as a credit to the sales tax liability.

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

(c) General Sales Tax

ICE Group also pays general sales tax pursuant to the General Sales Tax Law (Law No. 6826). This is a value-added tax on the sale of merchandise and certain services. For the sale of energy for residential electricity consumption, the tax rate is 5% on amounts consumed in excess of 250 kW per month versus 13% for commercial consumption and the provision of telecommunications services.

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

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(d) Special quasi-fiscal tax paid by telecommunications operators and providers to FONATEL (General Telecommunications 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 providers of public telecommunications services who generate the taxable event by performing the aforementioned activities and receiving the specific benefit from State activities.

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

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

(e) Quasi-fiscal tax on telephony services

This tax was created by Law No. 9355 published on May 27, 2016 "Modification of several laws to finance the Costa Rican Red Cross", whereby a quasi-fiscal tax contribution to the Costa Rican Red Cross was created.

This tax corresponds to 1% of the amounts paid by the end user (owners of a landline, mobile, prepaid, postpaid or any other type of phone line). The amounts collected must be paid on the 15th of each month, at the latest. This law replaced law No. 8690, which established the Red Tax to Finance the Costa Rican Red Cross, previously paid.

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

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

(g) Customs 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 Tax Law No. 6946 (1%), general sales 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 Group is also an income tax withholding agent in accordance with the Income Tax Law. In this role, taxes are withheld from the taxpayer and ICE holds joint and several liability. 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.

Note 40. <u>Financial risk management</u>

ICE Group is exposed to the following risks from financial instruments: credit risk (risk of economic loss derived from payment default by customers or counterparties), liquidity risk (entity's inability to meet obligations due to lack of liquidity), and market risk (currency, interest rate, and commodity risks). All these risks have an impact on the management of ICE Group; however, each risk is handled individually. For example, credit risk is regulated by the Investment Committee through a rigorous analysis of the issuers and of CAMELS ratings; liquidity risk is managed by controlling treasury cash flows for the Telecom and Electricity segments; and market risk is hedged with financial derivatives. As a result, risk exposure is controlled through the Investment Committee.

ICE Group's Investment Committee is vested with the authority to monitor and control management of the temporary investments of ICE Group's Electricity and Telecom segments. This is the body to which the Financial Corporate Division delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) in respect of investment decisions, which include investment limits, currency, and risk levels for the portfolio composition.

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

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

The Corporate Policy for Financial Risk and Financial Hedging Management, effective since 2011, was updated in January 2016.

(Continued)

The purpose of the 2016 update is "*to provide ICE with a financial risk management framework in accordance with the strategic objective of cost and expense optimization included in the business strategy, through an effective management of financial risks using market opportunities, based on available financial instruments, in accordance with the Risk Management and Financial Risk Hedging Strategy*."

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

The use of financial derivatives is in accordance with ICE Group's policies and meets international accounting best practices, which provide written principles on foreign currency, interest rate, and credit risks, the use of derivative and non-derivative financial instruments, and excess liquidity investment. This process takes place through the Financing and Investments Process.

Each year, the Financial Corporate Division develops a financial risk map for ICE Group, and follows-up on controls and action plans on an annual basis.

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

(a) Credit risk

Credit risk represents the potential loss due to failure of a customer or counterparty to comply with the contractual terms of ICE Group's operations, mainly cash, cash equivalents, receivables, and investments.

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

(i) *Accounts receivable*

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

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

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

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

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

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

Note 3 "Significant accounting policies" explains in detail the accounting policy for booking the allowance and the administrative and legal collection processes.

(ii) *Investments*

In the case of credit or counterparty risk, the ratings given to ICE Group's investments are monitored and tracked based on the Investment Strategy and risk profile determined by the Investment Committee.

Financial risks are identified for all financial operations related to financial instruments, such as: short-, medium-, and long-term financing and all aspects of treasury management, including lines of credit, bank letters of credit, buying and selling of currency, investments, issue of securities, raw material purchases, etc.

At Board of Directors' meeting No. 6148 held on September 7, 2015, a guideline was approved to authorize the Financial Corporate Division to designate financial derivatives, in accordance with the Risk Management and Financial Risk Hedging Strategy, to mitigate the effects of currency and interest rate risks in financial operations. As a result, the agreement issued by the Board of Directors at meeting No. 6063 dated October 23, 2013, establishing a limit of US$970 (in millions) solely for colón/U.S. dollar hedges, is nullified.

Investment guidelines are approved by the Board of Directors and the Financial Investment Policy Manual is approved by General Corporate Financial Management. That manual contains all regulations concerning issuers, instruments, and permitted sectors, as well as rules to be observed in respect of brokerage firms and custodians.

(iii) *Impairment losses*

The aging of trade receivables is as follows:

		As of December 31,	
		2016	**2015**
Current	¢	96,149	92,001
Administrative and legal collection		55,159	50,834
Total	**¢**	**151,308**	**142,835**

The movement in the allowance for accounts receivable is as follows:

		As of December 31,	
		2016	**2015**
Opening balance	¢	59,910	47,529
Allowance booked during the period		15,455	20,562
Allowance used during the period		(12,843)	(8,181)
Closing balance	**¢**	**62,522**	**59,910**

(b) Liquidity risk

Liquidity risk refers to potential losses as a result of an early or forced sale of assets at unusual discounts that prevent ICE from meeting its obligations, or because a position cannot be sold, bought, or hedged by purchasing an equal but opposite position.

(Continued)

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 monitoring and tracking cash flows or 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 Corporate Division 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, the business units and other areas of ICE must send the programming of payments for a 12-month period in compliance with ICE's treasury policies. Another important input is data obtained from the Institutional Payment System, which furnish the exact amount and deadline of payments as established in the agreements.

Additionally, it is important to have inputs and coordination with business units regarding income behavior and with areas responsible for finance management to allow a better matching and, thus, optimize treasury management seeking a better and timely attention to payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). 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 ICE's Payment 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 more often used short-term financing options.

(Continued)

Lines of credit are approved as follows: amounts greater than US$20 (in millions) 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.

(c) Market risk

Market risk is the risk that changes in market prices, e.g. foreign exchange rates and interest rates will affect ICE Group'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.

ICE acquires derivative financial instruments to manage part of its existing market risks. All hedging operations are valued according to the price provided by the issuer of the instrument. Hedge accounting is used for qualifying instruments 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, ICE has elected to specifically manage derivatives for existing liabilities.

The following risks have been identified in 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 13 derivative financial instruments: two to hedge interest rate risk, namely swaps; two to hedge against the yen/U.S. dollar fluctuations, known as a Cross Currency Swap; and nine to hedge against the U.S. dollar/colon fluctuations, called Non-Deliverable Currency Swap.

(In millions of colones)

The general features of positions exposed to market risk that are being hedged with derivatives are presented in the following table:

Details	**PR002 Tranche b**	**PPE017 U.S. dollar/colon Tranche b-1**	**PR003 Tranche a**	**PFI -019 U.S. dollar/colon Tranche a-1**	**PR004 Yen**	**PF-021 Yen**	**PR007 U.S. dollar/colon - 7 years**	**PFI022 U.S. dollar/colon - 3 years**	**PFI024 U.S. dollar/colon - 3 years**	**PFI026 U.S. dollar/colon - 3 years**	**PFI027 U.S. dollar/colon - 3 years**	**PFI023 U.S. dollar/colon - 3 years**	**PFI025 U.S. dollar/colon - 3 years**
Hedged debt	BID-1931 B/OC-CR	PR002	BID-1931 A/OC-CR	PR003	JIBC-CR-P3	JIBC-CR-P3	BID-1908	BID-1908	BID-1908	2021 bonds	2021 bonds	2043 bonds	2043 bonds
Principal amount	USD 45.0	USD 45.0	USD 106.9	USD 106.9	JPY 4 876.8	JPY 4 722.4	USD 40.0	USD 50.0	USD 50.0	USD 100.0	USD 200.0	USD 50.0	USD 50.0
Hedged amount	USD 45.0	CRC 23 978.0	USD 106.9	CRC 56 964.4	USD 53.6	USD 38.3	CRC 20 132.0	CRC 27 814.5	CRC 27 715.5	CRC 55 200.0	USD 110 850.0	CRC 27 814.5	CRC 27 715.5
Exchange rate	N/A	CRC 532.9	N/A	CRC 533.0	USD 91.0	USD 123.3	CRC 503.3	CRC 556.3	CRC 554.3	CRC 552.0	CRC 554.3	CRC 556.3	CRC 554.3
Contract date	5/8/08	4/28/14	1/27/09	9/18/15	6/18/12	12/3/15	3/29/11	11/23/16	11/23/16	12/9/16	12/9/16	11/23/16	11/23/16
Hedge inception date or first payment	8/15/08	8/15/14	1/14/10	9/18/15	10/20/12	10/20/15	5/2/11	5/25/17	5/25/17	5/10/17	11/10/16	5/14/17	5/14/17
Hedge maturity date	2/15/18	2/15/18	7/14/23	7/14/23	4/20/26	4/20/26	11/2/17	11/25/19	11/25/19	11/10/19	11/10/19	11/14/19	11/14/19
Term	10 years	4 years	15 years	8 years	14 years	10.5 years	7 years	3 years	3 years	3 years	3 years	3 years	3 years
Base rate	6M LIBOR	6M LIBOR	6M LIBOR	3.23%	2.20%	2.20%	6M LIBOR	6M LIBOR	6M LIBOR	6.95%	6.95%	6.375%	6.375%
Spread over/under base rate	4.37%	5.75%	3.23%	-	5.11%	5.01%	2.95%	0.90%	0.90%	7.94%	7.72%	6.96%	7.29%
Variable rate	-	-	-	-	-	-	Base rate	-	-	-	-	-	-
Total fixed rate	4.37%	5.75%	3.23%	4.23%	5.11%	5.01%	Base rate +2.95 bp	2.92%	3.05%	7.94%	7.72%	6.96%	7.29%
Strategy	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge	Hedge
Hedged risk	Interest rate	Exchange rate U.S. dollar/colon	Interest rate	Exchange rate U.S. dollar/colon	Exchange rate yen/U.S. dollar	Exchange rate yen/U.S. dollar	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon	Exchange rate U.S. dollar/colon
Instrument	Interest rate swap	Non-deliverable currency swap	Interest rate swap	Non-deliverable currency swap	Cross-currency swap	Cross-currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap	Non-deliverable currency swap

(Continued)

In the case of cash flow hedges, expected cash flows for the primary instrument and hedging derivative are presented below:

In millions of colones		Expected cash flows - derivatives	Less than 12 months	More than 12 months
Forward-staring swap	¢	2,814	1,515	1,299
Plain vanilla swap		847	847	(1)
Total	¢	3,661	2,362	1,298

In millions of colones		Expected cash flows - liabilities	Less than 12 months	More than 12 months
BID-1931A/OC-CR	¢	51,540	7,929	43,611
BID-1931B/OC-CR		25,040	16,693	8,347
Total	¢	76,580	24,622	51,958

Capital management

Article 17 of Chapter IV “Equity and Earnings” of the Law to Create the Costa Rican Power and Telephone Company (Law No. 449) dated April 8, 1949 states that “ICE’s financial policy will be to reinvest its net profit from the sale of electric power and from any other sources in financing and executing national electrification plans and promoting the electric power industry.”

The Government shall not receive any portion of that profit since ICE Group 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 electric energy 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 Group.

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

In the fourth quarter of 2016, ICE Group’s capital management remained unchanged and ICE Group was not subject to external capital requirements.

ICE Group’s adjusted debt/equity ratio at the consolidated balance sheet date is as follows:

(Continued)

(In millions of colones)

Debt to equity ratio		**As of December 31, 2016**	**2015 (Restated)***
Total liabilities	¢	3,280,390	2,714,997
(-) Cash and cash equivalents		(174,224)	(181,220)
Net debt		3,106,166	2,533,777
Total equity		2,625,599	2,784,795
Less:			
Amounts accumulated in equity related to cash flow hedges		(7,412)	2,943
Adjusted equity		2,633,011	2,781,852
Debt to equity ratio	¢	**1.181**	**0.912**

(*) See note 27.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as follows:

Carrying amount of financial assets		**As of December 31, 2016**	**2015 (Restated)***
Cash and cash equivalents	¢	174,224	181,220
Temporary investments, net		112,639	106,525
Long-term investments		113,688	207,012
Restricted funds		28,518	11,333
Notes and accounts receivable		203,135	193,669
Total	**¢**	**632,204**	**699,759**

(*) See note 27.

(In millions of colones)

The maximum exposure to credit risk in respect of notes and accounts receivable at the date of the consolidated balance sheet by geographic region is as follows:

Geographic region		As of December 31,	
		2016	**2015**
Costa Rica	¢	197,091	188,613
Other countries		6,044	5,056
Total	**¢**	**203,135**	**193,669**

The maximum exposure to credit risk in respect of notes and accounts receivable at the date of the consolidated balance sheet by type of counterparty is as follows:

Type of counterparty		As of December 31,	
		2016	**2015**
Private individuals or companies	¢	97,337	73,623
Telephone administrations		2,439	2,596
Distribution companies		10,855	10,315
Other - Government		13,746	12,990
Operators and service providers		6,046	5,057
Other		72,712	89,088
Total	**¢**	**203,135**	**193,669**

Risk ratings for ICE Group reported as of December 31, 2016, are as follows:

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Issuer	Entry No./ISIN	Instrument	Risk rating
ICE			
Banco BAC San José, S.A.	00BSJ00C27Z2	Term certificate of deposit (global bond)	F1+ (cri)
Banco BAC San José, S.A.	00BSJ00E0511	Repurchase operation	F1+ (cri)
Banco BAC San José, S.A.	00BSJ00E0560	Repurchase operation	F1+ (cri)
Banco BAC San José, S.A.	CRBSJ00B1640	BSJ bond	AAA (cri)
Banco BAC San José, S.A.	CRBSJ00B1913	BSJ bond	AAA(cri)
Banco BAC San José, S.A.	CRBSJ00B1921	BSJ bond	AAA(cri)
Banco Cathay	00CATAYE0417	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE0664	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE0797	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE3809	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE3874	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE4096	Term certificate of deposit (global bond)	SCR2
Banco Cathay	00CATAYE4872	Term certificate of deposit (global bond)	SCR2
Banco Central de Costa Rica	CRBCCR0B4072	Repurchase operation	BB
Banco Central de Costa Rica	CRBCCR0B4080	Fixed rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4221	Fixed rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4221	Repurchase operation	BB
Banco Central de Costa Rica	CRBCCR0B4239	Repurchase operation	BB
Banco Central de Costa Rica	CRBCCR0B4395	Fixed rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4403	Fixed rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4726	Fixed rate monetary stabilization bond	BB
Banco Central de Costa Rica	CRBCCR0B4767	Fixed rate monetary stabilization bond	BB
Banco Crédito Agrícola de Cartago	00BCAC0C13N7	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0C21N0	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0C28N5	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0C56N6	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0C78N0	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0E0372	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	00BCAC0E4655	Term certificate of deposit (global bond)	F1+ (cri)
Banco Crédito Agrícola de Cartago	CRBCAC0B1181	BCAC bond	AA+(cri)
Banco Crédito Agrícola de Cartago	CRBCAC0B1256	BCAC bond	AA+(cri)
Banco Crédito Agrícola de Cartago	CRBCAC0B1496	BCAC bond	AA+(cri)
Banco Crédito Agrícola de Cartago	CRBCAC0B1512	BCAC bond	SCR AA+
Banco Crédito Agrícola de Cartago	CRBCAC0B1520	BCAC bond	SCR AA+
Banco Crédito Agrícola de Cartago	CRBCAC0B1538	BCAC bond	SCR AA
Banco Crédito Agrícola de Cartago	CRBCAC0B1546	BCAC bond	SCR AA
Banco Crédito Agrícola de Cartago	CRBCAC0B1561	BCAC bond	AA+(cri)
Banco Crédito Agrícola de Cartago	CRBCAC0B1587	BCAC bond	AA+(cri)
Banco Davivienda (Costa Rica) S.A.	00BDAVIC1551	Term certificate of deposit (global bond)	F1+ (cri)
Banco Davivienda (Costa Rica) S.A.	00BDAVIC1601	Term certificate of deposit (global bond)	F1+ (cri)
Banco Davivienda (Costa Rica) S.A.	00BDAVIC1866	Term certificate of deposit (global bond)	F1+ (cri)
Banco de Costa Rica	00BCR00CMM30	Term certificate of deposit (global bond)	F1+ (cri)
Banco de Costa Rica	0NR0ICE00698	Term certificate of deposit (over the counter, electronic non-negotiable in stock market)	F1+ (cri)
Banco de Costa Rica	0NR0ICE00736	Term certificate of deposit (over the counter, electronic non-negotiable in stock market)	F1+ (cri)
Banco Hipotecario de la Vivienda (BANHVI)	CRBANVIB0094	BANHVI bond	SCR AA+
Banco Hipotecario de la Vivienda (BANHVI)	CRBANVIC0085	Commercial paper	SCR AA+
Banco Improsa	00BIMPRC8984	Term certificate of deposit (global bond)	SCR2
Banco Improsa	00BIMPRE0344	Term certificate of deposit (global bond)	SCR2
Banco Improsa	00BIMPRE0484	Term certificate of deposit (global bond)	SCR2
Banco Internacional de C.R. - Miami	0NR0ICE00046	Overnight deposit	BB+
Banco Internacional de C.R. - Miami	0NR0ICE00051	Overnight deposit	BB+
Banco Internacional de C.R. - Miami	0NR0ICE00680	Term certificate of deposit (over the counter, electronic non-negotiable in stock market)	BB+
Banco Lafise	00BLAFIE0684	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE0700	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE0817	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE0825	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE0841	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE3357	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE3753	Term certificate of deposit (global bond)	SCR2
Banco Lafise	00BLAFIE4033	Term certificate of deposit (global bond)	SCR2
Banco Nacional de Costa Rica	00BNCR0C09Z7	Term certificate of deposit (global bond)	F1+ (cri)
Banco Nacional de Costa Rica	00BNCR0C09Z7	Repurchase operation	F1+ (cri)
Banco Nacional de Costa Rica	00BNCR0C11Z3	Term certificate of deposit (global bond)	F1+ (cri)
Banco Nacional de Costa Rica	00BNCR0C20Z4	Repurchase operation	F1+ (cri)
Banco Nacional de Costa Rica	00BNCR0C56Y1	Term certificate of deposit (global bond)	F1+ (cri)
Banco Nacional de Costa Rica	0NR0ICE00737	Short-term investment (over the counter, electronic)	F1+ (cri)
Banco Nacional de Costa Rica	0NR0ICE00738	Short-term investment (over the counter, electronic)	F1+ (cri)
Banco Nacional de Costa Rica	CRBNCR0B1695	BNCR bond	AA+(cri)
Banco Nacional de Costa Rica	CRG0000B25H2	Repurchase operation	F1+ (cri)

(Continued)

(In millions of colones)

Issuer	Entry No./ISIN	Instrument	Risk rating
Banco Popular y de Desarrollo Comunal	00BLAFIE0817	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCH13	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCI46	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCI61	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCJ29	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCM73	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCU73	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CCU73	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CDD99	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CDM23	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0CEC24	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0E0113	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0E0139	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0E3406	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	00BPDC0E3414	Term certificate of deposit (global bond)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	0NR0ICE00657	Term certificate of deposit (over the counter, electronic non-negotiable in stock market)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	0NR0ICE00739	Term certificate of deposit (over the counter, electronic non-negotiable in stock market)	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B6954	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7168	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7218	Repurchase operation	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7259	BPDC bond	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7275	BPDC bond	F1+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7309	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7317	BPDC bond	AA+ (cri)
Banco Popular y de Desarrollo Comunal	CRBPDC0B7325	BPDC bond	AA+ (cri)
Banco PRIVAL,S.A. (formerly BANSOL Banco de Soluciones)	00PRIVAE0690	Term certificate of deposit (global bond)	SCR2
Banco PRIVAL,S.A. (formerly BANSOL Banco de Soluciones)	00PRIVAE3488	Term certificate of deposit (global bond)	SCR2
Banco Promérica	00BPROMC68F1	Term certificate of deposit (global bond)	SCR AA +
Banco Promérica	CRBPROMB1284	Promérica bond	SCR AA +
Banco Promérica	CRBPROMB1359	Promérica bond	SCR AA +
Banco Scotiabank de Costa Rica, S.A.	CRSCOTIB1292	Scotiabank bond	AAA (cri)
Compañía Nacional de Fuerza y Luz -CNFL-	CRCFLUZB0207	CNFL bond	AAA (cri)
Fideicomiso Benemérito Cuerpo de Bomberos	CRFTBCBB0044	FTBCB bond	SCR AA
Fideicomiso Benemérito Cuerpo de Bomberos	CRFTBCBB0051	FTBCB bond	SCR AA
Financiera Desyfin	00FDESYE2174	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE2372	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE2521	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE2604	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE2687	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE2851	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE3123	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE3396	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE3610	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	00FDESYE3743	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE3966	Term certificate of deposit (global bond)	SCR3
Financiera Desyfin	00FDESYE4766	Term certificate of deposit (global bond)	SCR2
Financiera Desyfin	CRFDESYB0218	FDESY bond	SCRAA
Florida ICE & Farm Company S.A.	CRFIFCOB0972	FIFCO bond	SCR AAA
Florida ICE & Farm Company S.A.	CRFIFCOB0998	FIFCO bond	SCR AAA
Government	CRBCCR0C4634	Zero-coupon monetary stabilization bond	BB
Government	CRG0000B11H2	Central bank bond	BB
Government	CRG0000B19H5	Repurchase operation	BB
Government	CRG0000B19H5	Central bank bond	BB
Government	CRG0000B25H2	Repurchase operation	BB
Government	CRG0000B27H8	Central bank bond	BB
Government	CRG0000B27H8	Central bank bond	BB
Government	CRG0000B29H4	Central bank bond	BB
Government	CRG0000B36H9	Central bank bond	BB
Government	CRG0000B42H7	Repurchase operation	BB
Government	CRG0000B42H7	Central bank bond	BB
Government	CRG0000B43H5	Repurchase operation	BB
Government	CRG0000B48H4	Central bank bond	BB
Government	CRG0000B51H8	Central bank bond	BB
Government	CRG0000B55G1	Central bank bond	BB
Government	CRG0000B55G1	Central bank bond	BB
Government	CRG0000B56G9	Central bank bond	BB
Government	CRG0000B56H7	Repurchase operation	BB
Government	CRG0000B56H7	Central bank bond	BB
Government	CRG0000B57H5	Central bank bond	BB
Government	CRG0000B59G3	Repurchase operation	BB
Government	CRG0000B60G1	Central bank bond	BB

(Continued)

(In millions of colones)

Issuer	Entry No./ISIN	Instrument	Risk rating
Government	CRG0000B63H3	Repurchase operation	BB
Government	CRG0000B72G6	Central bank bond	BB
Government	CRG0000B81G7	Central bank bond	BB
Government	CRG0000B81G7	Central bank bond	BB
Government	CRG0000B89G0	Repurchase operation	BB
Government	CRG0000B89G0	Central bank bond	BB
Government	CRG0000B93G2	Repurchase operation	BB
Government	CRG0000B96G5	Central bank bond	BB
Government	CRG0000B97G3	Repurchase operation	BB
Government	CRG0000B97G3	Central bank bond	BB
Government	USP3699PAA59	External debt bond - Costa Rica	BB
Government	USP3699PAA59	Repurchase operation	BB
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCP061	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCP145	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCP202	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCP228	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCQ705	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCQ754	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	00MADAPCQ846	Mortgage participation certificate	SCR2
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	CRMADAPB2467	MADAP bond	SCR AA
Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo	CRMADAPB2475	MADAP bond	SCR AA+
La Nación S.A.	CRNACIOB0142	La Nación S.A. bond	SCR AAA
La Nación S.A.	CRNACIOB0167	Repurchase operation	(blank)
La Nación S.A.	CRNACIOB0175	La Nación S.A. bond	SCR AAA
Mutual Cartago de Ahorro y Préstamo	00MUCAPC7970	Mortgage participation certificate	SCR2
Mutual Cartago de Ahorro y Préstamo	00MUCAPC8028	Mortgage participation certificate	SCR2
Mutual Cartago de Ahorro y Préstamo	00MUCAPC8044	Mortgage participation certificate	SCR2
Mutual Cartago de Ahorro y Préstamo	00MUCAPE0452	Mortgage participation certificate	SCR2
Refinadora Costarricense de Petroleo	CRRECOPB0012	Recope standardized bond	AAA (cri)
Refinadora Costarricense de Petroleo	CRRECOPB0020	Recope standardized bond	AAA (cri)
SAFI BAC San José	SAJCPcFI	I.F. BAC San José liquidity C, non-diversified	SCR AA+F2
SAFI Banco de Costa Rica	BCRLIcFI	I.F. BCR short-term colones, non-diversified	SCR AA+F2
SAFI Banco de Costa Rica	BCRLIcFI	I.F. BCR short-term colones, non-diversified	SCR AAF2
SAFI Banco de Costa Rica	BCRMX¢FI	I.F. BCR mixed colones, non-diversified	SCR AAF2
SAFI Banco de Costa Rica	FI-000000022	I.F. BCR liquidity dollars, non-diversified	SCR AA+F2
SAFI Banco de Costa Rica	FI-000000022	I.F. BCR liquidity dollars, non-diversified	SCR AA+F2
SAFI Banco de Costa Rica	FI-000000066	I.F. BCR mixed dollars, non-diversified	SCR AAF2
SAFI Banco Nacional de Costa Rica	BNASUPER$FI	I.F. BN Superfondo dollars, non-diversified	F1+ (cri)
SAFI Banco Nacional de Costa Rica	BNASUPERcFI	I.F. BN Superfondo colones, non-diversified	SCR AAF2
SAFI Banco Nacional de Costa Rica	BNASUPERcFI	I.F. BN Superfondo colones, non-diversified	SCR AA+F2
SAFI Banco Nacional de Costa Rica	FI-000000001	I.F. BN Dinerfondo colones, non-diversified	F1+ (cri)
SAFI Banco Nacional de Costa Rica	FI-000000002	I.F. BN Dinerfondo dollars, non-diversified	SCR AAF2
SAFI Banco Popular	FI-000000006	I.F. Popular money market colones (non-diversified)	SCR AAF2
SAFI Banco Popular	FI-000000006	I.F. Popular money market colones (non-diversified)	SCR AAF 2
SAFI Instituto Nacional de Seguros	BACLACcFI	I.F. non-diversified INS - liquidity C	SCR AAF 2
SAFI Instituto Nacional de Seguros	BACLAD$FI	I.F. non-diversified INS - liquidity D	SCR AAF 2
SAFI Instituto Nacional de Seguros	BANCREDILASC¢FI	I.F. non-diversified INS - public liquidity C	SCR AAF 2
SAFI Instituto Nacional de Seguros	BANCREDILASD$FI	I.F. non-diversified INS - public liquidity D	SCR AAF 3
SAFI Scotiabank	ITFCPPU$FI	I.F. non-diversified public Scotia	SCR AAF2
SAFI Scotiabank	ITFCPPU$FI	I.F. non-diversified public Scotia	BB
SAFI Scotiabank	ITFCPPUcFI	I.F. non-diversified public Scotia	BB
The Bank of Nova Scotia (Costa Rica)	00BNSCRE4116	Term certificate of deposit (global bond)	F1+ (cri)
CRICSA			
SAFI Banco Nacional de Costa Rica		I.F. BN Dinerfondo colones, non-diversified	scrAA+f2

(In millions of colones)

Estimation of potential losses:

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

International Ratings				
Term	Moody's	Standard & Poor's	Fitch	Weighting factor
Short-term		A1+	F1+	0%
	P1	A1	F1	1%
	P2	A2	F2	2.50%
	P3	A3	F3	5%
		B	B	7.50%
	C and other	C and other	C and other	10%
Long-term	Aaa	AAA	AAA	0%
	Aa	AA	AA	1%
	A	A	A	2.50%
	Baa	BBB	BBB	5%
	BA	BB	BB	7.50%
	B	B	B	9%
	Caa and other	CCC and other	CCC and other	10%

Local ratings		
Term	**Rating**	**Weighting factor**
Short-term	1, 2, 3	7.50%
	Other	10.00%
Long-term	AAA - A	7.50%
	BBB – B	9.00%
	CCC and other	10.00%

Category	International ratings		Local ratings	
	Long-term	Short-term	Long-term	Short-term
1	AAA and AA	F1, A-1 and P-1	-	-
2	A and BBB	F2, A-2 and P-2	-	-
3	BB	F3 and P-3	Scr-AAA and AAA(cri) Scr-AA and AA(cri)	Scr-1 and F1(cri) Scr-2 and F2 (cri)

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

(In millions of colones)

Exposure to liquidity risk

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

Liabilities		**Carrying amount**	**Expected cash flows**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Long-term liabilities							
Securities payable	¢	**1,123,489**	1,153,711	14,693	22,038	653,338	463,643
Loans payable		**869,919**	916,756	34,427	128,933	335,134	418,262
Long-term finance leases		**494,750**	903,702	-	104,721	274,175	524,806
Accounts payable		**9,241**	9,241	6,490	1,376	1,376	-
Total long-term liabilities		**2,497,399**	**2,983,410**	**55,609**	**257,068**	**1,264,022**	**1,406,711**
Current liabilities							
Securities payable		**25,000**	25,000	25,000	-	-	-
Loans payable		**91,351**	91,351	91,351	-	-	-
Short-term finance leases		**14,618**	14,618	14,618	-	-	-
Accounts payable		**131,904**	131,904	131,904	-	-	-
Accrued finance expenses		**22,788**	22,788	22,788	-	-	-
Total short-term liabilities		**285,661**	**285,661**	**285,661**	**-**	**-**	**-**
Total	¢	**2,783,060**	**3,269,071**	**341,270**	**257,068**	**1,264,022**	**1,406,711**

(Continued)

The table below presents the periods in which cash flows related to derivative financial instruments are generated. The calculation of expected cash flows includes the projected estimated cash flows for each derivative instrument.

In millions of colones		Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cross-currency swap								
Liabilities	¢	(6,015)	7,344	732	1,352	1,207	2,659	1,393
Cross-currency swap								
Liabilities		1,417	5,416	540	997	891	1,962	1,027
Forward-staring swap								
Liabilities		(2,737)	2,814	631	884	548	682	69
Plain vanilla swap								
Liabilities		(774)	847	443	404	-	-	-
Non-deliverable currency swap Tranche b-1								
Liabilities		(274)	331	166	165	-	-	-
Non-deliverable currency swap Tranche a-1								
Liabilities		(972)	2,704	369	640	537	1,003	154
Non-deliverable currency swap 7 years								
Liabilities		1,255	1,400	719	681	-	-	-
Coupon swap 3 years								
Liabilities		(18)	3,751	665	1,319	1,206	561	-
Coupon swap 3 years								
Liabilities		(972)	2,571	428	857	857	428	-
Coupon swap 3 years								
Liabilities		(147)	488	81	163	163	81	-
Coupon swap 3 years								
Liabilities		(79)	3,833	670	1,346	1,234	582	-
Coupon swap 3 years								
Liabilities		(502)	1,653	275	551	551	275	-
Coupon swap 3 years								
Liabilities		(327)	848	133	283	283	150	-
Total	¢	(10,147)	34,000	5,853	9,642	7,477	8,384	2,644

(Continued)

(In millions of colones)

A detail of lines of credit acquired with financial institutions and used for working capital during the year ended December 31, 2015 is presented below (2016: nil):

General characteristics of the line of credit					Disbursement conditions				
Bank	**Purpose**	**Currency**	**Interest rate**	**Approved amount**	**Date disbursed**	**Maturity date**	**Settlement date**	**Renewal date**	**Disbursed amount**
Scotiabank	Opening and refinancing of letters of credit, working capital and issue of performance bonds	US$	Fixed rate 1.26%	75	23/12/2014*	12/01/2015	12/01/2015	-	4
		US$	Fixed rate 1.47%		23/12/2014*	21/05/2015	21/05/2015	-	15
Global Bank	Working capital	US$	Fixed rate 1.25%	20	23/12/2014*	12/01/2015	12/01/2015	-	20

Note: *Corresponds to disbursements made in 2014, transferred from one budget year to another since they were used as a "bridge loan" while the long-term funds were obtained.

(Continued)

(In millions of colones)

Market risk

Exposure to currency risk

As of December 31, 2016, ICE Group's exposure to foreign currency risk is as follows:

	U.S. dollars		Yens		Euros	
	December 2016	December 2015	December 2016	December 2015	December 2016	December 2015
Assets						
Materials in transit for investment	44	30	5,118	-	2	4
Long-term investments	24	2	-	-	-	-
Notes receivable	5	5	-	-	-	-
Banks and temporary investments	59	121	-	-	-	-
Restricted funds	1	2	-	-	-	-
Receivables for services rendered	17	10	-	-	-	-
Non-trade receivables	18	25	-	-	-	-
Securities received as guaranty deposits	0	1	-	-	-	-
Materials in transit for operations	3	4	-	18	-	-
Valuation of derivative financial instruments	12	5	-	-	-	-
Total assets in foreign currency	**183**	**205**	**5,118**	**18**	**2**	**4**
Liabilities						
Securities payable	1,558	1,608	-	-	-	-
Long-term and short-term loans payable	1,129	1,151	14,846	12,943	-	-
Long-term finance leases	429	-				
Guaranty deposits	-	2	-	-	-	-
Accounts payable	78	73	5,055	18	5	10
Accrued finance expenses	31	38	-	-	-	-
Deposits from private individuals or companies	-	2	-	-	-	-
Valuation of derivative financial instruments	23	28	-	-	-	-
Result of valuation of financial instruments	20	-				
Total liabilities in foreign currency	**3,268**	**2,902**	**19,901**	**12,961**	**5**	**10**
Excess liabilities over assets	**3,085**	**2,697**	**14,783**	**12,943**	**3**	**6**

Items in U.S. dollars were updated using the sell exchange for the colón with respect to the U.S. dollar established by the Central Bank of Costa Rica for operations with the non-banking public sector. As of December 31, 2016, such foreign exchange rate was ¢556.44 (2015: ¢537.81).

The main exchange rates used are as follows:

	Exchange rate with U.S. dollar As of December 31,	
Currency name	**2016**	**2015**
Swedish krona	9.11	8.44
Pound sterling	1.23	1.47
Swiss franc	1.02	1.00
Euro	1.05	1.09
Colon	556.44	537.81
Japanese yen	116.96	120.22

(Continued)

(In millions of colones)

In the case of currency operations, ICE Group adheres to the provisions of Law No. 7558, "Internal Regulations of the Central Bank of Costa Rica", of November 27, 1995. Article 89 of that law states that "Non-banking public sector institutions shall execute their currency buy and sell transactions through the Central Bank of Costa Rica or State-owned commercial banks". For its operations, ICE Group 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, 2016 and 2015 to an increase or decrease in the exchange rate of the U.S. dollar with respect to the colón. ICE Group applies a sensitivity index of 10%, which represents its best estimate of exchange rate variations of the U.S. dollar with respect to the colón.

		December 31,	
		2016	**2015**
U.S. dollars			
Sensitivity to an increase in the exchange rate:			
Net position in U.S. dollars (expressed in colones) at the closing exchange rate	¢	1,716,617	1,450,474
Net position in U.S. dollars	US$	3,085	2,697
Net position in U.S. dollars (expressed in colones) at the closing exchange rate with an increase of 10% in exchange rate	¢	1,888,279	1,595,521
Loss	¢	(171,662)	(145,047)
Sensitivity to a decrease in the exchange rate:			
Net position in U.S. dollars (expressed in colones) at the closing exchange rate	¢	1,716,617	1,450,474
Net position in U.S. dollars	US$	3,085	2,697.00
Net position in U.S. dollars (expressed in colones) at the closing exchange rate with a decrease of 10% in exchange rate	¢	1,544,956	1,305,426.00
Gain	¢	171,662	145,047

This analysis assumes that all other variables, particularly interest rates and foreign exchange rates, remain constant.

Exposure to interest rate risk

ICE Group maintains significant assets and liabilities, mainly represented by temporary investments, long-term investments, and securities and loans payable obtained to finance its commercial operations, which are subject to interest rate variations.

A detail of interest rates for financial assets and liabilities is presented in the following notes:

(In millions of colones)

	Note
Securities payable	19
Temporary investments	8
Loans payable	20
Long-term investments	6
Notes and accounts receivable	10
Finance lease obligations	21

<u>Sensitivity analysis</u>

In managing interest rate risk, ICE Group aims to reduce the impact of short-term fluctuations on its earnings. With respect to temporary investments, long-term investments, and securities and loans payable, permanent changes in interest rates would have an impact on earnings.

During the year ended December 31, 2016, it is estimated that an overall increase or decrease of one percentage point in interest rates would have caused the following changes in financial assets and liabilities:

		Effects on profit or loss			
			Note		
		2016		**2015**	
		Strengthening of 1%	**Weakening of 1%**	**Strengthening of 1%**	**Weakening of 1%**
Temporary investments	¢	1,126	(1,126)	2,686	(2,686)
Long-term financial investments		1,137	(1,137)	2,514	(2,514)
Long-term notes receivable		81	(81)	259	(259)
Short-term notes receivable		24	-24	200	(200)
Long-term securities payable		10,965	(10,965)	10,631	(10,631)
Short-term securities payable		619	(619)	-	-
Long-term loans payable		6,351	(6,351)	5,964	(5,964)
Short-term loans payable		2,520	(2,520)	830	(830)
Finance leases payable		5,094	(5,094)	258	(258)
Net effect ICE Group	**¢**	**27,917**	**(27,917)**	**23,342**	**(23,342)**

(In millions of colones)

Note 41. Contingent assets and liabilities

Active judicial processes involving ICE Group as of December 31, 2016 are as follows:

Proceedings	Number of cases	Estimated amount of the claim	As of December 31, 2016	As of December 31, 2015
			Legal provision	
Contingent assets - lawsuits filed by ICE Group:				
Arbitration (1)	2	4,570	-	-
Ordinary Administrative (2)	14	5,765	-	-
Other	162	941	-	-
Total contingent assets	**178**	**11,276**	**-**	**-**

Proceedings	Number of cases	Estimated amount of the claim	As of December 31, 2016	As of December 31, 2015
			Legal provision	
Contingent liabilities - laswuits filed against ICE Group:				
Administrative proceedings (3)	186	10,749	142	-
Ordinary Administrative (4)	46	6,018	1,342	800
Administrative and Civil Court of Finance (5)	6	39,926	-	-
Execution of judgment (Administrative)	7	1,079	41	107
Other	126	3,527	1,183	2,828
Total contingent liabilities	**371**	**61,299**	**2,708**	**3,735**

Below is the definition of the main types of proceedings and jurisdictions recognized by ICE:

a) Arbitration: resolution of a lawsuit without resorting to the ordinary jurisdiction. The parties, by mutual agreement, decide to appoint an independent third party, an arbitrator or an arbitration court, to settle the dispute. The arbitrator, in turn, will be limited by that agreed by the parties to issue the arbitration award. It shall be performed in conformity with the law chosen by the parties, or in equity, as agreed.

b) Contentious: judicial proceedings that review the behaviors protected by the contentious jurisdiction. The contentious-administrative jurisdiction has the goal of protecting the legal status of all persons, guaranteeing or reestablishing the lawfulness of any behavior of the Public Administration subject to administrative law, as well as hearing and resolving the various aspects of the legal-adminsitrative relationship (Article 1 of the Contentious-Administrative Procedural Code).

c) Administrative: administrative proceedings are processed in the administrative venue and, pursuant to paragraph 1 of Article 214 of the General Public Administration Law, must seek to ensure compliance with the goals of the Public Administration with regard to the subjective rights and legitimate interests of the persons subject to its jurisiction, in conformity with the body of law.

The cases with larger amounts of contingent assets and liabilities are as follows:

(1) ICE awarded Verizon, through a tender, the production of phonebooks. Due to a breach of contract by Verizon, ICE began judicial proceedings before an administrative court in 2005, to collect damages. Within this process, ICE requested as a precautionary measure to seize the monies deposited by ICE. Current status of the proceedings: "By means of a decision of the First Chamber of the Supreme Court of Justice, the defendant is sentenced to the payment of damages due to breach of contract, according to the indicated estimate." The esimated amount as of December 31, 2016 and 2015 is ¢3,781.

(2) Ordinary administrative proceedings filed against RECOPE seeking payment of economic damages due to the excess cost incurred in electricity generation with diesel at the production centers in Garabito, Orotina, and Guápiles resulting from the late delivery of fuel. The estimated amount as of December 31, 2016 and 2015 is ¢5,723 and ¢5,613, respectively.

(3) The company Call My Way NY S.A. filed a complaint against ICE before SUTEL, claiming anti-competitive practices by ICE that generate barriers for new competitors to enter the telecommunications market and that promote the exit of existing ones. It is based on that the promotions launched by ICE cannot be replicated by them and are not sustainable for ICE, since they are below cost. The case is currently awaiting resolution by SUTEL. The estimated amount as of December 31, 2016 is ¢8,868.

(4) Through judgment No. 150-2016 of October 14, 2016, ICE was sentenced to the payment of ¢938 for contingencies in the agreement for the purchase/sale of shares of Cable Visión de Costa Rica, S.A. Furthermore, ICE filed an appeal for annulment before the First Chamber of the Supreme Court of Justice.

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

i. Instalaciones Inabensa, S.A. – File No. 5-1194-163-CA: This case was initiated for the collection of penalties during the project for underground electrification of San José.The plaintiff seeks the collection of claims and reimbursement of penalties, filed during the stage of execution of the aforementioned project, for an estimated amount of ¢10,808.

(Continued)

ii. Ghella Spa Costa Rica – File No. 10-3471-1027-CA: This claim seeks the annulment of the limitations established in Addendum No. 1 of the Contract for design, construction, equipment, and start-up of operations of the El Encanto Hydroelectric Project. The estimated amount is ¢20,424.

iii. Grupo Corporativo SARET: The plaintiff filed an early precautionary measure against CNFL for execution of the performance bond for collection of penalties. Furthermore, the plaintiff filed a formal claim for consequential damages, lost wages, and loss of opportunity. The estimated amount of the proceedings is ¢7,536.

These legal proceedings correspond to the subsidiary CNFL. It has made the corresponding legal appeals. As of December 31, 2016 there are insufficient elements to establish the possible outcome. Due to this uncertainty, the subsidiary's management has not considered it necessary to create a provision for potential losses.

As of December 31, 2016, ICE's Corporate Legal Department has 210 expropriation cases in process, in the stage of obtaining legal title of the property. There are also 74 cases of forced expropriation in the stage of obtaining legal title of the property required for the different projects being developed.

Note 42. Balances and transactions with related parties

Balances and transactions with related parties are as follows:

Commercial and financial transactions:

During the year, ICE performed the following commercial transactions with related parties:

The sale of goods and services to related parties were made at ICE's regular list prices. Purchases were made at market price to reflect the amount of goods purchased and the relationship between the parties.

(In millions of colones)

		Sale of goods and services		Purchase of goods and services	
		For the year ended December 31,			
		2016	**2015**	**2016**	**2015**
Construction services:	¢				
Uno P.H. Reventazón Trust/Scotiabank/2013		11,229	45,611	-	-
Other related parties		164	-	-	-
Advisory services:					
Government entities		2,759	318	-	-
Interest:					
Government entities		3,873	-	-	-
State-owned financial entities		2,653	6,164	10,719	853
Other services:					
Autonomous institutions		-	-	1,432	1,240
Government entities		1,275	3,018	851	2,038
Other related parties		1,338	567	1,468	170
Total	¢	**23,289**	**55,677**	**14,469**	**4,302**

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

These balances do not include utility expenses (electricity, water, telecommunications, social security and taxes), respectively.

		Balances due from related parties as of December 31,		Balances due to related parties as of December 31,	
		2016	**2015**	**2016**	**2015**
Government entities		934	2,465	-	-
Autonomous institutions		103	22	-	-
Other related parties		2,072	106	127,248	52,274
Total	¢	**3,109**	**2,593**	**127,248**	**52,274**

Outstanding balances are unsecured and are expected to be settled in cash. No guarantees have been provided or received. No expenses have been recognized in the current or prior periods in relation to uncollectible or doubtful accounts due from related parties.

As of December 31, 2016, loans payable with state-owned financial entities amounted to ¢91,769 (2015: ¢64,172), (see note 20).

The following balances correspond to financial investments and restricted funds, placed in or though state-owned financial entities:

(Continued)

(In millions of colones)

		As of December 31,	
		2016	**2015**
Cash equivalents	¢	37,860	97,341
Held to maturity		52,833	44,334
Restricted funds		28,518	11,333
Total	**¢**	**119,211**	**153,008**

As of December 31, 2016, interest receivable on securities with State-owned financial entities amounts to ¢2,121.

As of December 31, 2016, ownership interest is held in autonomous and non-governmental agencies in the amount of ¢15,352 (2015: ¢15,321), (see note 6).

Compensation to key management personnel

Compensation to directors and other key management personnel during the year are as follows:

		As of December 31,	
		2016	**2015**
Short-term benefits	¢	5,619	6,274
Post-employment benefits		162	187
Severance benefits		465	529
Other long-term benefits		250	433
Total	**¢**	**6,496**	**7,423**

Compensation to key management personnel includes wages, benefits other than cash and contributions to a defined post-employment benefit plan.

Note 43. Segment information

(a) Basis for segmentation

ICE Group 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 Cable Visión de Costa Rica, S.A. (CVCRSA).

- Electricity Segment, which includes ICE’s Electricity Sector and Compañía Nacional de Fuerza y Luz, S.A. (CNFL).

(Continued)

(In millions of colones)

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 ICE Group'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:

(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

Below is an analysis of revenue and profit or loss from the continuing operations of ICE Group's reportable segments:

		For the year ended December 31,					
		Electricity		Telecom		Consolidated total	
Profit or loss by segment		**2016**	**2015 (Restated)***	**2016**	**2015 (Restated)***	**2016**	**2015 (Restated)***
Profit by segment	¢	804,015	745,699	576,515	580,781	1,380,530	1,326,480
Depreciation of operating assets		147,131	153,889	124,558	122,882	271,689	276,771
Other income		51,231	93,019	30,937	34,281	82,168	127,300
Other foreign exchange income		6,530	18,412	1,968	2,662	8,498	21,074
Finance expenses		107,897	96,008	14,942	15,251	122,839	111,259
Other expenses		18,420	61,563	4,031	(157)	22,451	61,406
Other foreign exchange expenses		52,451	4,728	6,960	660	59,411	5,388
Consolidated profit (loss), net	¢	11,840	13,034	7,593	(15,504)	19,434	(2,470)

* See note 27.

The revenue by segment reported in the previous paragraphs corresponds to revenue generated by external clients.

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 ¢6,622 (2015: ¢7,266).

- Revenue from the sale of services by the Telecom Segment to the Electricity Segment in the amount of ¢2,600 (2015: ¢2,424).

(In millions of colones)

The accounting policies of the reportable segments are the same as those of ICE Group, described in note 3. Gains by segment represent the gains obtained by each segment without the share of profit or loss for the year, finance income, other gains or losses, and finance costs that are not attributable to a specific segment. The foregoing represents the measurement reported to the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

(d) Assets and liabilities by segment

		As of December 31,					
		Electricity		**Telecom**		**Consolidated total**	
Assets and liabilities by segment		**2016**	**2015 (Restated)***	**2016**	**2015 (Restated)***	**2016**	**2015 (Restated)***
Assets	¢	4,659,215	4,224,450	1,246,774	1,275,342	5,905,989	5,499,792
Liabilities	¢	2,778,136	2,187,732	502,255	527,265	3,280,390	2,714,997

*** See note 27.**

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 business 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 ABC costing methodology, approved for ICE Group by the Board of Directors.

(e) Other segment information

		Depreciation and amortization			**Additions to non-current assets**	
		Year ended December 31, 2016	Year ended December 31, 2015 (Restated)*		Year ended December 31, 2016	Year ended December 31, 2015 (Restated)*
Telecom	¢	158,236	145,488	¢	88,223	108,478
Electricity		161,890	166,872		947,159	317,290
	¢	**320,126**	**312,360**	¢	**1,035,382**	**425,768**

* See note 27.

(In millions of colones)

(f) Revenue from the main products and services

ICE Group's revenue from the main products and services of its continuing operations is as follows:

		Year ended December 31, 2016	2015
Telephony, data and internet services	¢	499,194	502,877
Electricity services		790,242	735,059
Other services and products		91,094	88,544
Total	**¢**	**1,380,530**	**1,326,480**

Note 44. Subsequent events

(a) Creation of the company "Desarrollos Eléctricos, S.A." in Nicaragua,

Dated February 17, 2017, ENATREL and ICE created the company Desarrollos Eléctricos, S.A. (DESELEC), domiciled in Nicaragua (authorized by ICE's Group of Directors in Meeting No. 6173 of April 25, 2016), with a share capital of one hundred thousand córdobas (C$100,000), with an ownership interest of 50% each. It was created with the goal of generating, installing and operating networks, providing, acquiring and marketing electricity, telecommunications and infocommunications products and services, as well as other information products and services and other convergent services, directly or through agreements, cooperation agreements, associations, strategic alliances or any other type of partnership with national or foreign entities, both public and private. It currently has no operations.

(b) *Purchase of privately generated electricity –ARESEP resolution:*

In December 2016, as a result of the review performed by ICE's management regarding the contents of the settlement for the prior period, prepared and presented by the Intendencia de Energía [Energy Management Office] in RIE 104-2016, published in Official Gazette No. 241, Issue No. 308 of December 15, 2016, it was determined that the rates applied by ICE during 2016 did not contemplate the cost of the purchase of electricity from independent power producers, amounting to ¢24,393.6, recognized and accepted by the Energy Management Office in Ruling RIE-107-2015 dated October 23, 2015, communicated in Official Gazette No. 211, Digital Issue No. 89, of October 30, 2015. This situation led ICE to begin performing a series of legal and technical steps with ARESEP and the Energy Management Office in order to present the omission of the aforementioned cost in the electricity rates for 2016 and to determine the position of the Regulator and the Energy Management Office in this regard. Following the discussions with the Regulator regarding this situation, on March 20, 2017, through the official communication included in Official Gazette No. 56, Issue No. 63, of March 20, 2017, the Energy Management Office communicated Ruling RIE-014-2017, which reads as follows:

"However, upon assessing the adjustment ordered through Ruling RIE-107-2015 dated October 23, 2015, which shall be effective as of January 1, 2016, regarding the additional recognition of purchases of electricity from independent power producers, we evidenced that it was not adequately transferred to the rate-setting for that period. Consequently, since these resources are not considered in the settlement for the 2016 period, the cost and revenue requirement shall be adjusted for rate period 2017 in the amount of ¢24,393.6".

Consequently, pursuant to the Energy Management Office's decision, the cost of ¢24,393.6 shall be included in the rates from April to December 2017, which ICE Group expected to include in 2016. Recognizing the aforementioned cost in a period different from that contemplated by ICE affects the accounting treatment applied in conformity with the accounting policy included in note 3-e) "Policies for current assets", subsection v) Prepaid expenses. Nevertheless, and because of the timing of the Energy Management Office's recognition of the omission and approval of its inclusion in the rates for 2017, ICE's management decided not to modify the accounting treatment used in 2016, considering that the process used to amortize such cost was based on the Energy Management Office's approval and communication to include such cost in the 2016 rates (see note 13).