CONSOLIDATED FINANCIAL STATEMENTS

Instituto Costarricense de Electricidad and Subsidiaries

ICE GROUP
ICE
CNFL
RACSA
CRICSA
Cable Visión

June 2017
Financial Management

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

Consolidated Balance Sheets
(In millions of colones)

As of June 30, 2017 and December 31, 2016

Assets		2017 (Without audit)	2016 (Audit)
Property, machinery and equipment:			
Operating assets, net		4,290,515	4,290,768
Construction work in progress		331,124	342,336
Materials in transit for investment		41,647	50,974
Inventory for investment		100,623	118,648
Total property, machinery and equipment, net		**4,763,909**	**4,802,726**
Long-term assets:			
Long-term investments		159,001	113,688
Notes receivable		8,145	8,242
Total long-term assets		**167,146**	**121,930**
Current assets:			
Cash and cash equivalents		130,855	174,224
Temporary investments, net		129,844	112,639
Restricted funds		26,473	28,518
Accounts receivable, net		134,876	125,773
Notes receivable		3,022	6,598
Operating inventory, net		59,261	63,683
Prepaid expenses		77,145	73,025
Total current assets		**561,476**	**584,460**
Other assets:			
Service agreements		1,634	1,215
Project design and execution		99,156	92,952
Technical service centers		3,365	66
Intangible assets, net		55,555	52,560
Securities received as guaranty deposits		6,146	6,042
Valuation of financial instruments		-	-
Guarantee and Savings Fund (restricted fund)		213,598	208,826
Transfer to Guarantee and Savings Fund		1,817	2,493
Operating inventory		32,961	32,719
Total other assets		**414,232**	**396,873**
Total assets	¢	**5,906,763**	**5,905,989**

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

Consolidated Balance Sheets
(In millions of colones)

As of June 30, 2017 and December 31, 2016

Liabilities and equity		2017 (Without audit)	2016 (Audit)
Long-term liabilities:			
Securities payable	¢	1,149,550	1,123,489
Loans payable		888,610	869,919
Obligations derived from credit		334	157
Obligations for long-term finance leases		495,240	494,750
Security deposits		59,434	58,681
Accounts payable		8,650	9,241
Prepaid income		7,135	6,071
Provision for severance benefits		111,324	106,829
Legal provisions		974	232
Total long-term liabilities		**2,721,251**	**2,669,369**
Short-term liabilities:			
Securities payable		25,076	25,000
Loans payable		102,265	91,351
Obligations for short-term finance leases		15,888	14,618
Accounts payable		127,854	131,904
Accrued finance expenses payable		22,525	22,788
Prepaid income		19,523	16,198
Deposits from private individuals or companies		7,673	7,503
Provision for severance benefits		25,200	26,650
Legal provisions		57,020	55,367
Accrued expenses for employer obligations		2,317	2,476
Total short-term liabilities		**405,341**	**393,855**
Other liabilities:			
Valuation of financial instruments		2,894	6,324
Accounts payable		1,738	2,016
Guarantee and Savings Fund (restricted fund)		213,598	208,826
Total other liabilities		**218,230**	**217,166**
Total liabilities		**3,344,822**	**3,280,390**
Equity:			
Paid-in capital		212	156
Development reserve		2,515,872	2,514,192
Actuarial gains and losses		(22,208)	(22,187)
Profit or loss on valuation of financial instruments		(17,614)	(7,412)
Legal reserve		13,026	11,979
Project development reserve		71	71
Restricted earnings from capitalization of stake in subsidiary		62,380	62,380
Retained earnings		73,468	64,037
Minority interest		2,330	2,383
Net loss		(65,596)	-
Total equity and minority interest		**2,561,941**	**2,625,599**
Total liabilities and equity	¢	**5,906,763**	**5,905,989**
Memoranda accounts	¢	**231,566**	**204,830**

Preliminary Translation.

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 Profit or Loss
(In millions of colones)

For the periods ended June 30, 2017 and 2016

		2017 (Without audit)	2016 (Without audit) (Restated)*
Operating income:			
Electricity services	¢	378,675	409,159
Telecom services		292,885	283,209
Supplemental services		296	1
Government services		47	8
Total operating income		**671,903**	**692,377**
Operating costs:			
Operation and maintenance		111,773	119,414
Operation and maintenance of leased equipment		41,917	48,962
Depreciation of operating assets		136,774	136,785
Supplemental services and purchases		102,746	114,518
Production management		35,305	36,552
Technical service center		9,347	8,827
Total operating costs		**437,862**	**465,059**
Gross profit		**234,041**	**227,318**
Operating expenses:			
Administrative		54,123	52,380
Marketing		113,815	110,005
Preinvestment studies		1,846	2,728
Preliminary studies		9,944	12,724
Other		2,121	1,565
Total operating expenses		**181,849**	**179,402**
Operating profit		**52,192**	**47,916**
Other income:			
Finance income		13,268	18,500
Foreign exchange differences		5,369	7,981
Income from investments in other companies		371	359
Other income		17,942	26,599
Total other income		**36,950**	**53,439**
Other expenses:			
Interest		84,514	58,186
Commissions		717	2,507
Foreign exchange differences		60,556	54,239
Other expenses		8,159	11,562
Total other expenses		**153,946**	**126,494**
Loss before income tax and minority interest		**(64,804)**	**(25,139)**
Tax and minority interest:			
Income tax		(970)	(813)
Minority interest 1.4%		178	246
Net loss	¢	**(65,596)**	**(25,706)**

Preliminary translation.

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Head of Corporate Finance

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Accounting Process Coordinator

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

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

For the periods ended as of June 30, 2017 and December, 2016

		Paid-in capital	Result of valuation of financial instruments	Development reserve	Legal reserve	Project development reserve	Restricted earnings from capitalization of stake in subsidiaries	Retained earnings	Minority interest	Actuarial gains and losses	Net loss	Equity, net
Balance at December 31, 2016, previously reported		156	(7,412)	2,514,192	11,979	71	62,380	64,037	2,383	(22,187)	-	2,625,599
Extraordinary contribution		56	-	-	-	-	-	-	-	-	-	56
Actuarial loss - severance benefits and vacation		-	-	-	-	-	-	-	-	(21)	-	(21)
Net loss		-	-	-	-	-	-	-	-	-	(65,596)	(65,596)
Allocation to legal reserve		-	-	-	1,047	-	-	-	-	-	-	1,047
Effect of variations of eliminations reciprocal transactions		-	-	1,680	-	-	-	9,378	-	-	-	11,058
Result of valuation of financial instruments:												
Derivative financial instruments		-	(9,252)	-	-	-	-	-	-	-	-	(9,252)
Investments		-	(950)	-	-	-	-	-	-	-	-	(950)
Appropriation to minoritary interest		-	-	-	-	-	-	53	(53)	-	-	-
Balance at June 30, 2017	¢	212	(17,614)	2,515,872	13,026	71	62,380	73,468	2,330	(22,208)	(65,596)	2,561,941

Preliminary translation

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

Consolidated Statement of Cash Flows

For the periods ended June 30, 2017 and 2016
(In millions of colones)

		2017 (Whitout audit)	2016 (Whitout audit) (Restated)
Sources (uses) of cash:			
Operating activities:			
Deficit, net.	¢	(65,596)	(25,706)
Adjustment:			
Depreciation		142,979	148,640
Interest expense		67,397	59,366
Legal benefits		13,068	13,675
Bonus		9,447	9,682
School salary		8,808	8,715
Accumulated vacations		8,069	10,323
Allowance for doubtful accounts		3,388	2,363
Allowance for valuation of inventory		462	38
Asset retirement expense		11,071	1,352
Absorption of amortizable and intangible items		6,649	5,028
Foreign exchange differences		61,434	45,540
Earned interests		(7,990)	(5,710)
Valuation of financial instruments		(13,631)	(8,477)
		311,151	290,535
Changes in:			
Increase trade receivables and others accounts receivable		(7,933)	(14,842)
Decrease of inventory		3,960	19,242
(Increase) Decrease other assets		(2,599)	25,954
(Decrease) Increase accounts payable		(4,919)	34,896
Increase security deposits		754	47
Increase prepaid income		4,389	2,879
Increase legal benefits		583	320
Decrease of employer obligations		(24,672)	(26,317)
Increase other liabilities		4,004	9,552
Cash provided by operating activities			
Interest paid		(71,054)	(72,453)
Interest received		7,105	5,532
Cash provided by operating activities		155,173	249,640
Investing activities:			
Investments in trust		-	(67,024)
Increase in long-term investments		(45,313)	(877)
Additions to property, machinery and equipment		(107,175)	(113,414)
Increase in other assets		(25,093)	(38,862)
Increase committed temporary investments		(17,205)	(39,356)
Net cash used in investing activities		(194,786)	(259,533)
Financing activities:			
Increase in securities payable		76	-
Amortization of securities payable		(363)	(27,302)
Increase in loans payable		45,849	77,493
Amortization of loans payable		(43,859)	(43,014)
Increase in obligations derived from credit		177	4
Increase in finances leases		1,796	6,183
Amortization in finances leases		(7,432)	(448)
Net cash provided by financing activities		(3,756)	12,916
(Increase) Decrease in cash and cash equivalents		(43,369)	3,022
Cash and cash equivalents at beginning of the year		174,224	181,221
Cash and cash equivalents at end of the year	¢	130,855	184,243

Preliminary translation.

Jesús Orozco Delgado
Head of Corporate Finance

Lizbeth Hernández Castillo
Accounting Process Coordinator

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

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

ICE Group is a group of government-owned entities, including the *Instituto Costarricense de Electricidad* (ICE, parent company and ultimate controlling entity) and its subsidiaries, *Compañía Nacional de Fuerza y Luz, S.A.* (C.N.F.L.), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internationals Costarricense, S.A. (CRICSA), and Cable Visión de Costa S.A. (CVCRSA), all of them organized under the laws of the Republic of Costa Rica. Other entities, which are not operational as of December 31, 2016, are wholly owned by ICE.

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

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

The main activity of its subsidiaries is as follows:

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

Compañía Nacional de Fuerza y Luz, S.A. ((hereinafter, "CNFL") is a corporation created through Law Number 21 of April 8, 1941, and its main activity is the distribution of electric energy in the metropolitan area of San José and some cantons adjacent to the provinces of Alajuela, Heredia and Cartago. The Company keeps an issue of debt securities in compliance with the regulations of the National Financial System Oversight Board (CONASSIF) and the General Superintendence of Securities (SUGEVAL).

- *Radiográfica Costarricense, S.A.*

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

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

Compañía Radiográfica Internacional Costarricense, S.A. (hereinafter CRICSA) was organized through Law No. 47 of July 25, 1921 and its main objective is the operation of the concession relating to wireless communication. CRICRSA does not currently have any officers or employees because ICE Group provides its accounting and administrative service.

- *Cable Visión de Costa Rica S.A.*

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

The activities performed by ICE and the subsidiaries mentioned above are regulated by the General Comptroller of the Republic, the General Superintendence of Securities (SUGEVAL), the National Stock Exchange of Costa Rica, the Law for the Regulation of the Securities Market, the Regulatory Authority for Public Services (ARESEP – including the Superintendence of Energy), the Telecommunications Superintendence (SUTEL), and the Pensions Superintendence (SUPEN).

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Note 2. <u>Basis of Accounting</u>

(a) Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the accounting policies included in ICE's Accounting Policy Manual and with accounting criteria issued, accepted by the Directorate of National Accounting of the Ministry of Finance of the Republic of Costa Rica–the Lead Agency of the National Accounting Subsystem. ICE's Accounting Policy Manual (version 7) includes the accounting policies applicable to booking transactions prepared and issued using "*Accounting Criteria*", with the stewardship and binding criteria of the Budget Accounting Directorate, the approval of the Corporate Management and Finance Department, and acceptance of the Directorate of National Accounting of the Ministry of Finance.

The above set of rules considers the conceptual framework included in the Accounting Principles Applicable to the Costa Rican Public Sector, which were in effect until December 31, 2016. In accordance with the orders and provisions established by the Directorate of National Accounting of the Ministry of Finance, ICE's Financial Statements for 2023 must be issued in accordance with the International Financial Reporting Standards (IFRS); therefore, the Institute has gradually adopted such regulations by making the changes implemented in ICE's Accounting Policy Manual and issuing accounting criteria, which, after being issued, will become part of the institution's accounting regulations in effect because they will be binding as accepted by the National Accounting Department of the Ministry of Finance.

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

Management of ICE Group authorized the issue of the consolidated financial statements and notes thereto on August 30, 2017.

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(b) Basis of measurement

Transactions are initially booked on the historical cost basis according to Executive Decree N° 34460-H of February 14, 2008; however, as of the date of issue of the accompanying consolidated financial statements, some items will be valued using other bases of measurement as detailed in ICE's Accounting Policy Manual, such as the fair value in the derivative financial instruments and investments, and the amortized cost of the debt.

(c) Functional and presentation currency

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

All financial figures contained herein are 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 estimates and judgments

The preparation of the accompanying consolidated financial statements in accordance with ICE's Accounting Policy Manual requires management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis.

(i) Judgments

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

- Note 37 - Institutional financial risk management
- Note 30 – Lease classification

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(ii) <u>Assumptions and estimation uncertainties</u>

The information on assumptions and estimation uncertainties that have a material risk of resulting in a material adjustment within the next year ending December 31, 2017 is included in the following notes:

- Note 10 – Allowance for doubtful accounts.
- Note 11 – Allowance for obsolete inventory.
- Note 24 – Recognition and measurement of provisions and contingencies – key assumptions related to the probability and magnitude of the economic resource outflows.

(e) Changes in Accounting Policies and New Transactions

The objective of this section is to inform on the changes made to ICE's accounting policies on best practices, which took place in June 2017 as part of the gradual implementation of the International Financial Reporting Standards, for purposes of a better interpretation, and which are applied on the consolidated financial statements of ICE Group.

(i) Presentation of Fair Value of Financial Assets and Liabilities

The objective of this policy is to define the guidelines that should be applied for determining and disclosing the fair value of the financial instruments, and of all assets and liabilities stated at fair value, as well as of the methods, and when valuation techniques are used, the hypotheses applied to determine the fair values.

In order to make the determination, ICE will use valuation techniques that are appropriate in the circumstances and by which it has sufficient information available to measure the fair value, maximizing the use of observable data and minimizing the use of non-observable data.

ICE will establish a fair value hierarchy, which will classify in three levels the input levels of the valuation techniques used to measure the fair value.

The adoption of these practices represents the adoption of a new accounting policy as a result of implementing the best practice in this type of transactions, which effect corresponds only to the disclosure of such instruments in the notes to the financial statements.

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(ii) Statement of Cash Flows

The objective of implementing this policy is requesting that information is provided regarding the historical changes of the entity' cash and cash equivalents, and this is made using a statement of cash flows in which the fund's flows of the period are classified, whether as operating, investment, or financing activities. Also, the objective of this policy is to determine the proper disclosure of this statement in the financial statements of ICE Group.

The adoption of these practices represents changes in the accounting policies as a result of implementing the best practice in this type of transactions, as established by the IFRS.

(iii) Net Value of Realization (Inventories)

The implementation of this accounting policy has the objective of defining the accounting treatment of ICE's inventories, so that users of the financial statements can be informed of the information regarding balances and types of inventories that the Institute has.

The changes to ICE's current policy were made taking into consideration the following elements:

- Record the inventories at the lower of cost and net realization value, as established by the best practices for those assets that are available for sale.

- In addition to the existing item *"Allowance for valuation of stock at warehouses"*, which considers the possible losses that originate from obsolescence, impairment, and shortages, there is an allowance for the valuation if inventories, which is referred to as *"Estimate of net value of realization"*, which measures price or cost fluctuations directly related to the existing events before or after close.

The adoption of these practices represents changes on the accounting policies since modifications are being made on the recognition parameters and measurement of these transactions.

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Note 3. <u>Summary of Significant Accounting Policies</u>

The following accounting policies, set forth in ICE's Accounting Policy Manual (Version 7) and in the Accounting Criteria issued and in effect as of 2016 and June 2017, have been applied in the years presented in the accompanying consolidated financial statements. Such accounting criteria are part of the Institution's accounting policies given their binding nature regarding the Accounting Policy Manual, which are later incorporated therein. Such accounting criteria represent the adopted accounting policies or the amendments to the existing accounting policies, and they are implemented in accordance with the policy associated with the "Accounting Policies, Changes in Estimates and Errors" used by ICE. The policies have been consistently applied in the years presented in these interim consolidated financial statements and for all the entities that compose ICE Group corresponding to the quarter ended as of June 30, 2017.

(a) <u>Annual accounting policies not applied for interim periods</u>

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

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

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

(i) Allowance for Valuation of Stock at Warehouses:

This is in accordance with the policy on the allowance for valuation of stock, the amount of the allowance for valuation of stock - an operation that must be periodically reviewed to cover the eventual obsolescence, impairment, or shortage.

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

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

Certain comparative amounts in the separate balance sheet have been reclassified as a result of the correction of errors, changes in estimates, and changes in accounting policies (see note 26).

(b) General Registration Policies

(i) Consolidation Bases

- *Business Combinations*

ICE Group's business combinations are accounted for using the acquisition method on the acquisition date, which is the date on which control is transferred to ICE Group. Control is the power to govern the financial and operating policies of the acquiree so as to obtain benefits from its activities.

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

Goodwill is measured at cost based on the financial statements of the acquiree on 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's 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, it is recognized under "intangible assets" in ICE Group's consolidated financial statements.

Goodwill is registered at cost.

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

(i) *Subsidiaries*

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

Subsidiaries	Country	Ownership interest As of June 30 2017	As of December 31 2016
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%

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

- *Transactions eliminated in the consolidation process*

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 item's cost or value 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

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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 foreign currency transactions are translated into the functional currency at the exchange rate for the Costa Rican colon with respect to the U.S. dollar (US$) in effect as of the immediately preceding annual period, established by the Central Bank of Costa Rica for operations with the non-banking public sector. However, as of the current year-end, the balances derived from foreign currency transactions are translated into colones using the sell exchange rate set by Central Bank of Costa Rica 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 application of this procedure are recognized in profit or loss of the period.

Subsidiaries book foreign currency transactions at the exchange rate in effect on the transaction date. Upon determination of 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 transaction's economic reality. Foreign exchange differences resulting from application of this procedure are recognized in profit or loss in the period in which they occur.

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

Note 4. Operating Assets

		As of June 30, 2017	As of December 31, 2016
Cost:			
Operating assets	¢	6,630,604	6,519,978
Operating assets and other operating assets under finance leases		845,611	844,949
Other operating assets		539,824	528,234
Total operating assets - cost		**8,016,039**	**7,893,161**
Cost:	¢		
Operating assets		3,364,844	3,254,884
Operating assets and other operating assets under finance leases		14,260	6,775
Other operating assets		346,420	340,734
Total accumulated depreciation of operating assets - cost		**3,725,524**	**3,602,393**
Operating assets, net	¢	**4,290,515**	**4,290,768**

(Continues)

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

Operating Assets - Cost:

The operating assets at cost as of June 30, 2017are the following:

Cost		As of December 31, 2015	Additions and capitalizations	Disposals	Transfers	Alignment adjustments	As of December 31, 2016	Additions and capitalizations	Disposals	Transfers	Alignment adjustments	As of June 30, 2017
Operating assets:												
Electricity:												
Land	¢	103,107	3,522	(104)	13,792	(24,882)	95,435	73	-	(33)	(303)	95,172
Buldings		61,813	746	(194)	9,583	(21,126)	50,822	466	(15)	87	(545)	50,815
Hydraulic power generation		2,297,643	46,225	(2,947)	6,992	(81,660)	2,266,253	6,947	(144)	(328)	(2,469)	2,270,259
Thermal power generation		182,141	787	(13,977)	(582)	-	168,369	288	-	-	-	168,657
Geothermal power generation		528,897	150	-	(1,196)	-	527,851	-	-	-	-	527,851
Wind power generation		11,702	-	-	778	-	12,480	-	-	-	-	12,480
Solar power generation		12,743	93	-	(721)	-	12,115	150	(9)	-	-	12,256
Micro hydro power generation		181	-	(528)	-	-	(347)	-	-	-	-	(347)
Substations (2)		431,854	17,654	(5,179)	(14,210)	(14,870)	415,249	21,376	-	-	-	436,625
Transmission lines (1)		297,859	32,249	(1)	(162)	(2,000)	327,945	24,451	-	-	-	352,396
Distribution circuits (3)		793,239	18,430	(4,841)	2,319	(144,379)	664,768	16,702	(6,605)	-	155	675,020
Street lighting		41,781	1,400	(231)	187	(13,731)	29,406	1,203	(200)	-	49	30,458
Communication, control and infrastructure equipment		92,440	8,590	(86)	2,704	(34,375)	69,273	3,122	(66)	-	86	72,415
General equipment		27,358	2,178	(1,399)	(1,080)	-	27,057	723	(737)	721	-	27,764
Telecom:												
Land		16,189	-	(23)	10,292	-	26,458	-	-	-	-	26,458
Buldings		768	530	(6)	134,864	-	136,156	604	-	-	-	136,760
Transport		662,388	27,408	(922)	(6,740)	-	682,134	14,227	-	(1)	-	696,360
Access (4)		526,654	25,522	(2,732)	(58,972)	-	490,472	18,610	-	(170)	-	508,912
Civil and electromechanical		235,831	11,428	-	(60,960)	-	186,299	6,552	-	-	-	192,851
Platforms		211,625	9,655	(4,332)	3,947	-	220,895	6,783	-	-	-	227,678
Communication equipment		109,030	630	(3,867)	-	-	105,793	358	(1,096)	(384)	-	104,671
General equipment		7,587	116	(310)	(2,298)	-	5,095	16	(18)	-	-	5,093
Subtotal operating assets	**¢**	**6,652,829**	**207,313**	**(41,679)**	**38,538**	**(337,023)**	**6,519,978**	**122,651**	**(8,890)**	**(108)**	**(3,027)**	**6,630,604**
Other operating assets under finance leases: (5)												
Land		600	-	-	5,706	-	6,306	-	-	-	-	6,306
Hydraulic power generation		-	795,298	-	-	-	795,298	-	-	-	-	795,298
Access		2,593	7,351	-	(57)	-	9,887	355	-	169	-	10,411
Land		1,348	-	-	-	-	1,348	-	-	-	-	1,348
Buildings		29,340	-	-	600	-	29,940	-	-	-	-	29,940
Furniture and equipment		2,152	43	-	(25)	-	2,170	59	-	79	-	2,308
Subtotal operating assets and assets under finance leases	**¢**	**36,033**	**802,692**	**-**	**6,224**	**-**	**844,949**	**414**	**-**	**248**	**-**	**845,611**
Other operating assets		505,205	25,377	(14,329)	11,981	-	528,234	19,940	(14,682)	6,332	-	539,824
Subtotal Other operating assets	**¢**	**505,205**	**25,377**	**(14,329)**	**11,981**	**-**	**528,234**	**19,940**	**(14,682)**	**6,332**	**-**	**539,824**
Total	**¢**	**7,194,067**	**1,035,382**	**(56,008)**	**56,743**	**(337,023)**	**7,893,161**	**143,005**	**(23,572)**	**6,472**	**(3,027)**	**8,016,039**

(Continues)

Adjusted Cost:

As of January 1, 2016, ICE adopted the adjusted-cost accounting policy as the new cost of operating assets. This cost includes the integration of the historical cost and the revaluation value in a single value, based on the fact that such assets are associated with operations subject to rate regulations. Before 2016, ICE's operating assets were registered at cost, with the exception of all the operating assets of the Electricity Sector as well as all ICE's lands and buildings. As a result of the adoption of such accounting policy, the balance of the reserve for revaluation was reversed, thereby transferring it to the Development Reserve and Retained Earnings. The amount of such a reversal was ¢1.086.323.

As a result of the adoption of the adjusted cost by ICE, the revaluation of related parties is eliminated, and it is included as an alignment adjustment in the operating asset note.

- During the first semester of 2017, there were increases in the productive assets for the following groups of assets:

(1) Transmission Lines:

It includes additions and capitalizations for the sum of ¢24,451, mainly in the transmission structures, conductors, fiber optic cable, and guard wire.

(2) Substations:

Additions were made in the amount of ¢21,376 mainly general systems, mitigatory module, conductors, fiber optic cable, and guard wire.

(3) Distribution Circuits:

Additions and capitalizations for the sum of ¢16,702, mainly in support structure, civil works, primary alone and secondary, among others.

(4) Access:

Additions and capitalizations for the sum of ¢18,610, mainly in 3G radio bases and 4G cellular telephony nodes for providing info-communication services.

(Continues)

(5) Operating Assets and Other operating assets under financial lease:

This account includes the value of performing assets under lease agreements entered into as financial lease assets.

As of June 30, 2017, some of the financial lease agreements entered into are the following:

Electricity Sector: (Hydraulic Generation)

Lease Agreement for the Reventazón Hydroelectric Power Project:

- Agreement entered into between UNO P.H Reventazón Trust as the lessor and ICE as the lessee. The agreement is for a minimum term of 17 years and semiannual payments are based on the amount paid by the UNO P.H. Reventazón Trust for the debt with the creditor banks of UNO P.H Reventazón Trust. During 2017, the value of such semi-annual payment amounted to ¢14,070 million (US$23 million). Such an agreement, classified as a financial lease agreement, became effective as of November 15, 2016, because the construction of the works was completed at the end of 2016.

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

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

a. Develop, continue the construction, lease, operate, and offer maintenance to the Reventazón Hydroelectric Power Project and subscribe the necessary financing to achieve those goals.
b. Create autonomous and independent equity to secure and guarantee compliance with the Trust's obligations.
c. Organize the Guarantee Trust to which the Trust Equity will be transferred, whereby this Trust will act as the trustor, the secured creditors as the beneficiaries, and this Trust's trustee as the trustee. The trustee of the Guarantee Trust is Banco Scotiabank.
d. Comply with the Trust's obligations established in the transaction documents, including making payments to secured creditors that granted loans or invested in securities for the development, financing, construction, lease, operation, and maintenance of the Reventazón Hydroelectric Power Project.
e. Once (i) the objectives of this Trust have been met, (ii) the obligations established in the transaction documents have been fulfilled, and (iii) the trustee receives written

(Continues)

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.

- 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.

The implementation of Reventazón hydroelectric plant is a joint venture between ICE and the Trust. Upon completion of such works in 2016, ICE included in the account of operating assets under a lease agreement the amount of ¢800.658, accounting for the total value of the construction cost. Such a value includes the cost of the investment directly made by ICE in the amount of ¢340.420 and the investment made by the Trust in the amount of ¢460.207. This last amount of ¢460.207, contributed by the Trust, is the benchmarking figure for the lease agreement. Since the investment made in such a project by the Trust was funded with loans denominated in colones and US dollars, the abovementioned agreed-upon lease fee includes a portion in the local currency and another portion in US dollars. Therefore, the obligation with the Trust and related to the investment made by such entity was broken down in those two currencies.

(Continues)

Telecommunications Sector (Buildings)

Telecom Tower Lease Agreement:

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

The purposes of this Trust was to provide ICE with a comprehensive physical space solution to perform its activities. One of the terms of this Trust was to lease the equipped building to ICE, thereby giving rise to the irrevocable lease agreement with an option to buy such property, known as Centro Empresarial La Sabana, through which the aforementioned Trust leases to ICE the aforementioned real property for a 12-year term, at the end of which ICE will be able to exercise the purchase option with a monthly lease fee determined based on the variables set forth in the aforementioned lease agreement.

With the amount received by the Trust for the lease of the property, the loan and yields from the securities placed in the stock market will be paid, as well as those private securities issued, and national and international bank loans.

RANGE – Telecommunications Lease Agreement: (Access)

In January 2014, Banco de Costa Rica (BCR) and ICE entered into an agreement referred to as "ICE-RANGE/BCR Trust Agreement) to comply with the cost of the design, construction, and maintenance of the New Generation Access Network (RANGE), including the works related to the installation of equipment, channeling of civil and electro-mechanical works, duct construction, cable laying, and installation of fiber optic. As a result of such a Trust Agreement, ICE entered into a lease agreement with the Trust regarding the works to be developed by the latter. The term of the lease is 18 years as of May 2016, with monthly payments established in accordance with the formula set forth in the Addenda to the aforementioned lease agreement. In 2017, the monthly payment ranges between ¢104 and 197 million, (¢201 and 217 million in 2016).

Payments started in 2016. Due to the characteristics of such a lease, it was classified as a financial lease.

(Continues)

The lease fee to be paid by the lessee to the lessor will be made in colones, legal tender of Costa Rica, one month in advance, on the first day of each month and will be calculated at the beginning of each year based on the Net Present Value (NPV) of all the expenditures submitted for the following twelve months, needed for the expenditures forecasted for the following twelve months. The calculation of the monthly amount will consider the forecasted expenditures of the twelve months corresponding to each year and it is taken to the present value so that, based on such data, the fixed monthly fee is calculated for such a year. The payments will be made through a bank deposit in a checking account indicated by the lessor.

Other Operating Assets

As of 2016, the non-operating assets are reclassified to other operating assets, that corresponding to buildings and lands, according to the best accounting practice.

(Continues)

(In millions of colones)

Accumulated Depreciation - Cost

The accumulated depreciation of operating assets as of June 30, 2017 is detailed as follows:

Depreciation - cost		As of December 31, 2015	Depreciation for the year	Disposals	Transfers	Alignment adjustments	As of December 31, 2016	Depreciation for the year	Disposals	Transfers	Alignment adjustments	As of June 30, 2017
Operating assets:												
Electricity:												
Buildings	¢	13,534	1,050	(1)	3,287	(12,941)	4,929	657	(1)	89	(1,071)	4,603
Hydraulic power generation		985,201	39,710	(2,250)	6,306	(34,952)	994,015	19,161	-	(43)	(3,538)	1,009,595
Thermal power generation		93,672	3,376	(9,385)	456	-	88,119	1,703	-	-	-	89,822
Geothermal power generation		229,963	40,899	-	(640)	-	270,222	20,498	-	-	-	290,720
Wind power generation		6,748	2,157	-	494	-	9,399	1,079	-	-	-	10,478
Solar power generation		2,921	2,100	-	(140)	-	4,881	483	(8)	-	-	5,356
Micro hydro power generation		38	4	-	-	-	42	2	-	-	-	44
Substations		196,586	17,127	(504)	(10,468)	(9,579)	193,161	7,878	-	-	(242)	200,797
Transmission lines		103,859	6,737	-	226	(973)	109,849	3,940	-	-	(36)	113,753
Distribution circuits		406,212	14,006	(3,431)	4,961	(91,525)	330,223	9,351	(4,986)	86	(2,080)	332,594
Street lighting		19,052	926	(144)	423	(9,001)	11,256	749	(172)	-	(155)	11,678
Communication, control and infrastructure equipment		44,768	4,034	-	2,193	(25,484)	25,511	2,603	(25)	-	(321)	27,768
General equipment		16,407	-	-	(138)	-	16,269	921	(613)	(29)	-	16,548
Telecom:												
Buildings		-	1,902	-	63,484	-	65,386	972	-	-	-	66,358
Transport		428,063	59,936	(773)	(1,492)	-	485,734	15,511	-	-	-	501,245
Access		286,110	47,229	(2,132)	(12,856)	-	318,351	18,256	-	(6)	-	336,601
Civil and electromechanical		219,996	4,105	-	(65,132)	-	158,969	6,673	-	(1)	-	165,641
Platforms		110,372	28,856	(3,606)	135	-	135,757	13,447	-	(1)	-	149,203
Communication equipment		24,004	-	-	-	-	24,004	230	(1,096)	-	-	23,138
General equipment		3,757	-	-	-	-	3,757	113	(18)	-	-	3,852
Subtotal operating assets	**¢**	**3,196,312**	**274,154**	**(22,226)**	**(8,901)**	**(184,455)**	**3,254,884**	**124,227**	**(6,919)**	**95**	**(7,443)**	**3,364,844**
Operating assets and other operating assets under finance leases:												
Hydraulic power generation	¢	-	976	-	-	-	976	5,961	-	-	-	6,937
Access		-	1,104	-	-	-	1,104	1,092	-	4	-	2,200
Buildings		2,786	-	-	-	-	2,786	300	-	-	-	3,086
Furniture and equipment		1,050	763	-	96	-	1,909	127	-	1	-	2,037
Subtotal operating assets and operating assets under finance leases	**¢**	**3,836**	**2,843**	**-**	**96**	**-**	**6,775**	**7,480**	**-**	**5**	**-**	**14,260**
Other operating assets	**¢**	319,924	26,184	(10,526)	5,152	-	340,734	11,272	(5,582)	(4)	-	346,420
Subtotal other operating assets	**¢**	**319,924**	**26,184**	**(10,526)**	**5,152**	**-**	**340,734**	**11,272**	**(5,582)**	**(4)**	**-**	**346,420**
Total	**¢**	**3,520,072**	**303,181**	**(32,752)**	**(3,653)**	**(184,455)**	**3,602,393**	**142,979**	**(12,501)**	**96**	**(7,443)**	**3,725,524**

(Continues)

(In millions of colones)

Cost:

On January 1, 2016, ICE adopted the adjusted-cost accounting policy as the new cost of operating assets. As a result, ICE regrouped, in a single item, the balances of the accumulated depreciation on the historical costs and the accumulated depreciation on the revaluation.

As of January 1, 2016 and after adopting the component accounting, the useful life of the elements of the operating assets were reviewed considering the disaggregation by components.

Therefore, in 2017 and 2016, the assets are depreciated using the following useful lives:

	Useful life (in years)
Buldings	40 a 50
Plant, machinery and equipment of electrical generation	30 a 60
Plant, machinery and telecommunications equipment	2 a 60
Public lighting plant, machinery and equipment	10 a 30
Machinery and equipment	4 a 20

(Continues)

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

Note 5. Works in Progress

Works in progress as of June 30, 2017 and 2016 are as follows:

Projet		As of June 30, 2017	As of December 31, 2016
Las Pailas II Geothermal Project (1)	¢	108,447	90,883
Borinquen Geothermal Power Project (2)		27,852	25,760
Real property management installation (3)		22,255	14,256
Anillo Sur Transmission Line (5)		19,323	18,293
New Power Control Center (6)		17,053	12,863
Advanced cell evolution (4)		16,725	16,604
Management of network elements (7)		15,338	11,286
Acquisition of assets - senior management (8)		12,907	11,329
Advanced mobile services (9)		9,339	11,661
Advanced public terminals		6,261	408
Reinforcement of distribution system		6,105	10,738
Oingoing quality improvement (distribution)		4,918	5,680
LTE network expansion		4,844	184
Fonatel		4,835	3,567
Cariblanco-Trapiche Transmission Line		3,815	3,363
Improvements to electricity transport network		3,559	4,276
Expansion of platform and renewal of technological infrastructure		3,547	1
Modernization of lightning, tests		3,051	4,954
Capillary network		2,689	5,188
Improvements to Telecom transport networks		2,431	4,067
Detour Carpio		2,290	2,154
Basic engineering studies		2,253	1,888
Cóbano Transmission Line		2,012	20,428
Technical services for distribution projects		1,972	1,308
Multi-service access nodes (NAM)		1,936	6
Convergent transport system		1,873	159
Network Development Project		1,716	2,307
Trunked radio system		1,707	738
Integral business customer services		1,436	4,091
Modernization of IPTV Platform		1,312	1,910
Colima technical support		1,290	604
Creation and restoration of civil and metal structures		1,272	1,101
Detour Claro River - Paso Canoas		1,186	578
Infrastructure maintenance and soundproofing		1,112	1,174
Modernization of the service platform		1,033	-
Hydropower plant Ventanas		557	5,585
Jacó Transmission Line		-	12,865
Coyol Transmission Line		-	11,604
Sundry projects		11,544	20,114
Less: Goverment services*		(671)	(1,639)
Total	**¢**	**331,124**	**342,336**

* Internal consumption for electricity and telephone services incurred by different areas of ICE.

(Continues)

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

(1) Las Pailas II Geothermal Power Plant

The balance corresponds to the cost of several construction works required to build a geothermal power plant with a power output of 55 MV. The purpose of this project is to complement the capacity generated by Las Pailas I plant. The project is located in Guanacaste and is being built on the foothills Rincón de la Vieja Volcano.

(2) Borinquen Geothermal Power Plant

This project is located in the Guanacaste Mountain Range, on the Pacific slope of the Rincón de la Vieja Volcano, which will have an estimated power generation of 55 megawatts (MW).

(3) Real property management facilities

The project consists of developing a physical space solution to invest in the construction of suitable infrastructure in the Sabana Sector to eliminate the fixed expenses of administrative leases that are limited due to the physical conditions in accordance with the required use by the Company.

(4) South Ring Transmission

This project includes the construction of a transmission line referred to as South Ring Transmission Line located between L.T Tarbaca – Parrita Transmission Line and L.T Río Macho el Este Transmission Line, with a length of 16.2 Km approximately and whose transfer will be double-circuit 230 kw.

(5) New energy control center

Construction of a new Energy Control Center Headquarters located outside San José and close to SEN substations. The facilities will have their own electricity services, uninterrupted direct current feeding for communications, SCADA/EMS equipment and programs and communications to access the SDH system.

(Continues)

(6) Advanced Mobile Evolution

This project was created for acquiring equipment, services, and internal LTE solutions for LTE interior solutions and services for 4G mobile network to reduce the delivery times of the equipment as much as necessary in order to supply the networks that ICE has available.

(7) Network Element Management

Solutions in the construction process to meet the needs of the next-generation services for residential clients.

(8) Acquisition of top management assets

The Financial Management Modernization Program (PMAF) is a solution that entails a redesign of logistics, administrative, and financial processes in accordance with the best industry practices supported on a platform that includes software, licenses, and infrastructure.

The Program includes the redesign, integration, and consolidation of operational and administrative processes of areas such as Finance, Supply Chain, Human Capital, and Project Management, and the improvement of the efficiency and the availability of information for an effective decision-making at the Institution based on an integrated ERP system (Enterprise Resource Planning) under the SAP brand.

(9) Advanced mobile services

This is related to the acquisition of mobile equipment for radio bases to meet the demand for mobile coverage.

(Continues)

(In millions of colones)

A detail of the movements regarding works in progress, material in transit, and inventory- version as of June 30, 2017 and December 31, 2016 is shown as follows:

Account		As of December 31, 2015	Additions	Capitalizations	Depreciation capitalizable	Interests and commissions	Warehoused	Used in works	As of December 31, 2016	Additions	Capitalizations	Depreciation capitalizable	Intereses y comisiones	Warehoused	Used in works	As of June 30, 2017
Construction work in progress	¢	408,004	308,017	(393,807)	2,921	18,840	-	-	343,975	106,396	(124,292)	1,548	4,168	-	-	331,795
Less: Government services*		(3,048)	1,409	-	-	-	-	-	(1,639)	968	-	-	-	-	-	(671)
Subtotal construction work in progress		**404,956**	**309,426**	**(393,807)**	**2,921**	**18,840**	**-**	**-**	**342,336**	**107,364**	**(124,292)**	**1,548**	**4,168**	**-**	**-**	**331,124**
Materials in transit for investment		19,170	54,646	-	-	-	(22,572)	(270)	50,974	5,574	-	-	-	(14,885)	(16)	41,647
Inventory for investment		125,523	117,350	-	-	-	-	(124,225)	118,648	55,290	(342)	-	-	-	(72,973)	100,623
Total	¢	**549,649**	**481,422**	**(393,807)**	**2,921**	**18,840**	**(22,572)**	**(124,495)**	**511,958**	**168,228**	**(124,634)**	**1,548**	**4,168**	**(14,885)**	**(72,989)**	**473,394**

* Internal consumption for electricity and telephone services incurred by different areas of ICE.

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

(Continues)

(In millions of colones)

Note 6. Long-Term Investments

Long-term investments are detailed as follows:

		As of June 30, 2017	As of December 31, 2016
Other investments valued at cost:			
Toro III Hydroelectric Power Project Trust (1)	¢	11,203	11,203
Empresa Propietaria de la Red, S.A. (2)		3,124	3,124
Tecomunica, S.A. (3)		1,081	1,081
Red Centroamericana de Fibras Ópticas S.A. (4)		143	143
Other		64	53
Subtotal		**15,615**	**15,604**
Long-term financial investments: (5)			
Government (External Debt Bonds)		61,415	40,522
BCCR (Bonds)		17,228	12,311
Investment costs		736	851
Other		64,007	44,400
Subtotal		**143,386**	**98,084**
Total long-term investments	**¢**	**159,001**	**113,688**

(1) Toro III Hydroelectric Power Project Trust

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

(Continues)

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

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

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. This investment is jointly made by ICE Group with the other entities in charge of energy management in the six Central American countries and three additional entities located in Spain, Colombia and Mexico. Each of the nine countries has an interest of 11.11%, and no country shall have an interest in EPR in excess of 15%.

EPR's share capital is comprised of 58,500 ordinary shares of US$1.000 par value each; ICE owns 6.061 shares of US$1.000 (one thousand dollars and no cents) par value and CNFL owns 439 shares of US$1.000 (one thousand dollars and no cents) par value each, respectively, for a total of US$6,5 million equivalent to ¢3.124 (11.11% interest) for ICE Group. The shares are valued at acquisition cost.

In June 2016, EPR made payments to ICE Group for returns on investments.

(3) Tecomunica, S.A. - Nicaragua

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

The first contribution for US$1 million was approved by ICE'S Board of Directors in meeting No. 6069 on December 2, 2013.

(Continues)

In meeting No. 6157 on November 30, 2015, ICE's Board of Directors approved a second contribution for US$1 million. The total contributions authorized by the Board of Directors as of December 31, 2015 amounted to US$2 million equal to ¢1.081.

The extraordinary General Shareholders' Meeting of Tecomunica, S.A. on December 4, 2015, agreed to increase the capital stock to 1.000 nominative shares amounting to a total of C$101.000.000 (one hundred one million córdobas) equal to US$4 million, at a par value of C$101.000 (one hundred one thousand córdobas, net) each is equal to US$4.000 (four thousand dollars) of which 500 shares are held by ICE (50% interest) for a total of C$50.500.000 (fifty million five hundred thousand córdobas, net) equal to US$2 million.

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

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

(5) Long-Term Financial Investments

They mainly comprise investments in bonds (debt securities), with yields ranging from 5,16 % and 11,46 % per annum for investments in colones and 4,06% and 5,84 per annum for investments in US dollars (between 5,16% and 11,46% annual in colones and 4,06% and 5,84% per annum in US dollars in 2016). The total value of these assets comprises investments denominated in colones amounting to ¢112.897 and securities denominated in US dollars amounting to ¢30.489 (US$53 million) (¢84.880 denominated in colones and ¢13.204 denominated in US dollars, equivalent to US$24 million, in 2016), with a maturity between September 2017 and April 2028 (May 2017 and April 2028 in 2016).

(Continues)

(In millions of colones)

Note 7. **Cash and Cash Equivalents**

		As of June 30, 2017	As of December 31, 2016
Cash on hand and in banks	¢	21,383	74,888
Cash equivalents		109,472	99,336
Total	**¢**	**130,855**	**174,224**

(Continues)

(In millions of colones)

A detail of cash equivalents is shown as follows:

				As of June 30, 2017			
	Currency	**Issuer**	**Type of financial instrument**	**Balance**	**Face value**	**Rate of return**	**Term in months**
Uncommitted:							
Available-for-sale	**Colones**	Repurchase operations	Repurchase operations	¢ 21,420	21,503	4.22% - 5.34%	Jul 2017 - Aug 2017
		Banco Davivienda (Costa Rica)	Term certificate of deposit (global bond)	2,000	2,000	5.92%	Sep 17
		Grupo Mutual Alajuela-La Vivienda de Ahorro y Préstamo	Mortgage participation certificate	1,000	1,000	4.87%	Jul 17
		BN Sociedad de Fondos de Inversión, S.A.	Investment funds	16	-	0.00%	Demand
	US Dólares	Banco Internacional de Costa Rica	Overnight deposit	20,501	-	0.20%	Demand
		Banco Internacional Costa Rica	Overnight deposit	331	-	0.20%	Demand
Held-to-maturity	**Colones**	Banco Nacional de Costa Rica	Short-term investment	2,522	2,522	4.35%	Jul 17
		Government	Treasury note (electronic over the counter)	10,011	10,030	4.32%	Jul 17
		Government	Term certificate of deposit	4,000	4,000	4.00%	Jul 17
		BAC San José	Term certificate of deposit	2,000	2,000	6.25%	Sep 17
		Banco de Costa Rica	Term certificate of deposit	1,000	1,000	4.96%	Aug 17
		Repurchase operations	Repurchase operations	1,150	-	5.18% - 5.26%	Jul 17
		Banco Nacional de Costa Rica	Short-term investment	1,564	1,564	4.35%	Jul 17
		Banco de Costa Rica	Term certificate of deposit	1,500	1,500	0.80%	May 2017 - Jul 2017
		Banco Popular y Desarrollo Comunal	Investment funds	500	500	2.65%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	1,000	1,000	2.65%	Demand
		Banco Nacional de Costa Rica	Term certificate of deposit	8	8	3.60%	Mar 2017 - Jun 2017
		Banco Nacional de Costa Rica	Term certificate of deposit	24	24	3.60%	Mar 2017 - Jun 2017
		Banco Popular y Desarrollo Comunal	Investment funds	1,000	1,000	2.82%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	600	600	3.39%	Demand
	US Dólares	Banco de Costa Rica	Term certificate of deposit	1,755	1,703	0.28%	Jul 17
		Banco Nacional de Costa Rica	Term certificate of deposit	98	98	3.20%	Jun 2015 - Aug 2017
		Banco de Costa Rica	Term certificate of deposit	170	170	0.20%	May 2017 - Jun 2017
		Banco Internacional de Costa Rica	Term certificate of deposit	2,180	2,180	1.50%	Apr 2017 - Jul 2017
		Banco Popular y Desarrollo Comunal	Investment funds	284	284	1.91%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	340	340	1.85%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	284	284	1.91%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	113	113	1.82%	Demand
		Banco Popular y Desarrollo Comunal	Investment funds	567	567	0.0182	Demand
Fair value	**Colones**	SAFI Banco Nacional de Costa Rica	I.F. non-diversified Superfondo BN - colones	4,696	-	3.32% - 3.52%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR	4,737	-	3.21% - 3.69%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - Public liquidity - colones	2,036	-	3.50% - 3.54%	Demand
		SAFI Banco Popular	I.F. non-diversified BP money market - colones	235	-	3.46%	Demand
		SAFI BAC San José	I.F. non-diversified BAC San José - líquidity -colones	2,258	-	3.63%	Demand
		SAFI Scotiabank de Costa Rica	I.F. non-diversified Scotia - public liquidity	423	-	3.31%	Demand
		Banco Nacional de Costa Rica	I.F. non-diversified BN - colones	3,322	-	3.32% - 3.52%	Demand
		Banco de Costa Rica	Investment funds	3,426	-	3.21% - 3.69%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - Public liquidity - colones	222	-	3.50% - 3.54%	Demand
		Banco Popular	I.F. non-diversified BP money market - colones	2,906	-	3.46%	Demand
		SAFI BAC San José	I.F. non-diversified BAC San José - líquidity -colones	267	-	2.86%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotia - public liquidity	81	-	3.31%	Demand
	US Dólares	SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN - U.S. dollars	2	-	1.75% - 2.00%	Demand
		SAFI Banco de Costa Rica	I.F. non-diversified BCR - líquidity - U.S. dollars	2,830	-	2.04%	Demand
		SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - Public liquidity	3	-	1.99% - 2.17%	Demand
		Banco Nacional de Costa Rica	I.F. non-diversified BN - U.S. dollars	3	-	1.75% - 2.00%	Demand
		Banco de Costa Rica	I.F. non-diversified BCR - líquidity - U.S. dollars	4,049	-	2.04%	Demand
		Instituto Nacional de Seguros	I.F. non-diversified INS - Public liquidity	4	-	1.99% - 2.17%	Demand
		Scotiabank de Costa Rica	I.F. non-diversified Scotia - public liquidity	6	-	1.55%	Demand
Investment costs	**Colones**	Costs of investment transactions	Costs of investment transactions	28	-	-	-
Total				¢ **109,472**	-		

(Continues)

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

				As of December 31, 2016			
Currency	Issuer	Type of financial instrument		Balance	Face value	Rate of return	Term in months
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
US Dólares	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
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 2016 - Jan 2017
US Dólares	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 2016 - Jan 2017
	BICSA	Term certificate of deposit		2,357	2,357	0.50%	Nov 2016 - Jan 2017
Colones	SAFI Banco Nacional de Costa Rica	I.F. non-diversified BN - colones		8,575	-	2.53% - 2.69%	Demand
	SAFI Banco de Costa Rica	I.F. non-diversified short-term BCR		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 - colones		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 Scotia - public liquidity		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		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 - colones		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 Scotia - public liquidity		80	-	2.98%	Demand
US Dólares	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		2,718	-	1.78% - 2.11%	Demand
	SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - Public liquidity		337	-	1.75% - 1.80%	Demand
	SAFI Scotiabank de Costa Rica	I.F. non-diversified Scotia - public liquidity		-	-	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		286	-	1.78% - 2.11%	Demand
	SAFI Instituto Nacional de Seguros	I.F. non-diversified INS - public liquidity		4	-	1.82% - 1.91%	Demand
	Scotiabank de Costa Rica	I.F. non-diversified Scotia - public liquidity		6	-	1.48%	Demand
Colones	Costs of investment transactions	Costs of investment transactions		43	-	-	-
			¢	**99,336**	**-**		

(Continues)

(In millions of colones)

Note 8. Temporary Investments

As of June 30, 2017, ICE Group has held-to-maturity investments (time deposit certificates, with a zero coupon) amounting to ¢20,875, of ¢20,013 are in colones and ¢862 in US dollars (¢15.603 in 2016, comprised by ¢11,013 denominated in colones and ¢4,590 in US dollars) and available for sale (time deposit certificates, Scotiabank bonds, Monetary Stabilization Bonds, commercial paper and Monetary Stabilization Bonds) for ¢107,884(¢95,002 in 2016) of which ¢103.870 are in colones and ¢4,014 are in US dollars (¢88.604 in colones and ¢6,398 in US dollars in 2016), with interest rates ranging from 4.75% and 8.75% per annum (2.72% and 7.99% per annum in 2016) and maturity dates from 4 and 12 months (between 3 and 12 months in 2016).

		As of June 30, 2017	As of December 31, 2016
Held-to-maturity and available-for-sale investments	¢	128,759	110,605
Valuation of investments		1,085	2,034
Net total	**¢**	**129,844**	**112,639**

Valuation of Investments

As of June 30, 2017 and as a result of the valuation of short-term investments, ICE Group recognized a net unrealized gain for the sum of ¢1.085 (¢2.034 in 2016), which is presented as part of the entry "*Results of the Valuation of Financial Instruments*," in the equity section.

(Continues)

(In millions of colones)

Note 9. Restricted Use Funds

The assets with restrictions regarding availability, as they are allocated for specific uses, are detailed below:

		As of June 30, 2017	As of December 31, 2016
Guarantees received fron third parties:			
In U.S. dollars	¢	607	508
In colones		706	767
Specific purpose funds:			
BCR Platinum (¢) - Cash for payments services (1)		24,255	25,668
BNCR Gold - Cash for amortization of short-term debt		905	1,575
Total	**¢**	**26,473**	**28,518**

(1) Cash from Payments of Services

There are enough funds for the most relevant operations such as energy purchase payments, loan payments, securities, materials purchases, payroll, social security contributions, among others.

(Continues)

(In millions of colones)

Note 10. Notes Receivable

Notes receivable on the short and long term are detailed as follows:

		As of June 30, 2017		As of December 31, 2016	
		Long-term	**Short-term**	**Long-term**	**Short-term**
Loan to autonomous entities (1)	¢	7,362	431	7,294	497
Private individuals or companies		-	2,219	-	1,595
Payment arrangement with suppliers		-	1	-	4,374
Agreements		-	345	180	69
CNFL-MINAET Agreement (Olivier Hydroelectric Power Project)		629	17	619	17
Other		154	9	149	46
Total	**¢**	**8,145**	**3,022**	**8,242**	**6,598**

(1) Loan to autonomous entities

911 Emergency System

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

On November 30, 2015, the 911 Emergency System was established to meet this financial obligation by making 30 semi-annual payments, with the first payment on April 30, 2016 and the last on October 31, 2030. This balance will earn an interest rate equal to the borrowing rate of BCCR in force in the week prior to the payment date. The balance of the note receivable as of June 30, 2017 amounts to ¢5,422 (¢5,422 in 2016).

Empresa Propietaria de la Red

It corresponds to the loan agreement entered into between ICE and Empresa Propietaria de la Red, S.A. (EPR) to repay loan IDB No. 1908 for a total of US$4,5 million equivalent to ¢2,371 in 2017 (¢2,369 in 2016). The total debt term is 25 years effective as of November 24, 2010, with a 5-year grace period, paid on a semiannual basis, at variable interest rate (Libor rate of 0.88% plus funding margin of 0.11%, plus IDB loan margin of 1.5% in 2016).

(Continues)

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

Note 11. Accounts Receivable, Net

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

		As of June 30, 2017	As of December 31, 2016
Receivables for services rendered:			
Private individuals or companies	¢	51,932	45,350
In administrative and legal collections		56,210	55,159
Electricity services - consumers		20,585	23,273
Electricity cooperatives and municipal electricity distribution companies		13,889	10,855
Operators and service suppliers		1,982	6,045
Telephone administrations		2,078	2,439
Public agencies		7,272	5,558
Other		4,546	2,629
Subtotal		**158,494**	**151,308**
Allowance for doubtful accounts		(55,936)	(55,336)
Accounts receivable for services rendered, net		**102,558**	**95,972**
Non-trade receivables:			
Private individuals or companies (1)		21,881	22,745
Government taxes		9,190	7,510
Agreements, paid services and other		3,298	3,293
Damage to electrical installations		629	516
Sundry government services		23	678
Other		3,408	2,245
Subtotal		**38,429**	**36,987**
Allowance for doubtful accounts		(6,111)	(7,186)
Non-trade receivables, net		**32,318**	**29,801**
Total receivables		**196,923**	**188,295**
Allowance for doubtful accounts		(62,047)	(62,522)
Receivables, net	¢	**134,876**	**125,773**

(Continues)

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

(1) Non-Trade Receivables - Private Individuals

As of June 30, 2017, the balance includes advance payments made by ICE to purchase fuel to generate power in thermal power plants for ¢448 (¢1,094 in 2016); advance payments to private individuals with guarantees for ¢3,921 (¢3,458 in 2016); interest and commissions for ¢3,957 (¢3,051 in 2016 balances receivable for unpriced services for ¢5,727 (¢5,973 in 2016), and the amount of ¢1,692 (¢2,758 in 2016) for deposits made by ICE Group in court.

Movement in the allowance for doubtful accounts is as follows:

Allowance for doubtful accounts		As of December 31 2015	Used	Expense	2016	Used	Expense	As of June 30, 2017
Receivables for services rendered	¢	52,717	(7,144)	9,763	55,336	(2,788)	3,388	55,936
Non-trade receivables		7,193	(8)	1	7,186	(1,075)	-	6,111
Total	¢	**59,910**	**(7,152)**	**9,764**	**62,522**	**(3,863)**	**3,388**	**62,047**

Note 12. Operating Inventory

Operating inventory is as follows:

		As of June 30, 2017	As of December 31, 2016
Operating inventory	¢	64,547	69,148
Materials and equipment held in custody		14,373	21,302
Materials in transit for operations		10,481	5,698
Subtotal		**89,401**	**96,148**
Allowance for valuation of inventory		(30,140)	(32,465)
Total inventory	¢	**59,261**	**63,683**

(Continues)

(In millions of colones)

Movement in the allowance for valuation of operating inventory is as follows.

		As of December 31							
		2015	Used	Expenses	2016	Used	Expenses	Net realisable value	As of June 30, 2017
	¢	43,695	(12,022)	792	32,465	(6,102)	462	3,315	30,140
Total	**¢**	**43,695**	**(12,022)**	**792**	**32,465**	**(6,102)**	**462**	**3,315**	**30,140**

In December 2015, the allowance for valuation of inventory was increased based on a study conducted by an inter-disciplinary group created by the Inventory Commission.” The analysis conducted by such a Commission considered the following variables:

- Lack of turnover: Inventory with no movements for more than 24 months.
- Overstock: Inventory that will last more than 48 months based on the consumption pattern and current stock.
- Risk of lack of turnover: Inventory with no movements for more than 13 months but less than 24 months.
- Buffer inventory: Inventory that according to the technical criteria of the sector is critical to business continuity.

This review process considered the risk of technological obsolescence to which the Group’s inventory is exposed. The scope of the review was broader than the scope of the analyses conducted in previous years and which were based on the “ABC Methodology” defined by the Supply Chain Division. The study conducted in 2015 involved the analysis of evidence in the light of ICE Group’s current market and competition conditions; therefore, its accounting treatment consisted of changing an accounting estimate with prospective effects.

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(Continues)

(In millions of colones)

Note 13. **Prepaid Expenses**

Prepaid expenses are detailed as follows:

		As of June 30, 2017	As of December 31, 2016
Mobile terminals and devices	¢	37,335	33,472
Use agreements (1)		17,440	19,937
Finance costs - Reventazón (2)		14,779	14,476
ING-0008 (U-500) insurance policy, net (3)		6,558	2,724
Other		1,033	2,416
Total	**¢**	**77,145**	**73,025**

(1) Use Agreements–Garabito Geothermal Power Plant

On November 5, 2007, ICE and BCR (trustee) entered into a lease agreement under a Securitization Trust for construction of a thermal power plant called Garabito Thermal Power Plant (see note 29). The lease term of the aforementioned thermal power plant according to that trust is 142 months (11 years and 10 months) starting 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 seven months additional to those set forth in the agreement o.

(2) Reventazón Financial Costs

As of November 2016, the first amortization was made and interest expenses generated by the Reventazón Hydroelectric Project Trust were booked (see note 14).

(Continues)

(In millions of colones)

(3) ING-0008 (U-500) Insurance Policy

The ING-0008 (U-500) all-risk policy is a replacement value agreement adjusted to the ICE's requirements that cover all risks of physical damage to property, such as: fire, landslides, floods, hurricanes, lightning, etc. This policy includes other types of coverage like equipment breakdown, business interruption, additional expenses, inland transit, robbery, wire theft, debris removal, errors and omissions, construction work in progress, sabotage, terrorism and catastrophic risks, among others.

The movement of ING-0008 (U-500) insurance policy during the period of June 30, 2017 and December 31, 2016 is as follows:

ING-0008 (U-500) insurance policy		**As of June 30, 2017**	**As of December 31, 2016**
Opening balance	¢	2,724	3,077
Amount of premium		8,568	10,246
Amortization of premium		(4,734)	(10,599)
Total	**¢**	**6,558**	**2,724**

(Continues)

(In millions of colones)

Note 14. Service Agreements

The main service agreements entered into with third parties are detailed as follows:

Project		As of June 30, 2017	As of December 31, 2016
Service Sales Project	¢	1,339	618
Reventazón Hidroeléctric Project		133	603
Other		171	17
Subtotal		**1,643**	**1,238**
* Elimination of Government services		(9)	(23)
Total	¢	**1,634**	**1,215**

* Internal consumption for services by the different areas of ICE

Note 15. Design and Planning of Project Implementation

This account includes all those costs incurred or investments made during the design and planning stage of the implementation of the following projects:

Project		As of June 30, 2017	As of December 31, 2016
El Diquís Hydroelectric Power Project (1)	¢	86,455	85,364
Refitting of south-center transmission line		4,991	4,991
Fourth Cliff Hydroelectric Power Project (2)		4,861	-
Verbena Transmission line		2,285	2,218
Transmission lines		284	251
Power transformers renawal		165	175
Other		156	57
Subtotal		**99,197**	**93,056**
* Elimination of Government services		(41)	(104)
Total	¢	**99,156**	**92,952**

* Internal consumption for services incurred by the different areas of ICE.

Below is a description of the nature and main transactions of works for the design and planning of the implementation during the period:

(Continues)

(1) El Diquís Hydroelectric Project (PHED):

As part of the plan to expand the electricity generation by ICE, as derived from the legal mandate to study and find out the energy potential of the watersheds of the country, in 2000 ICE started conducting a study to establish additional alternatives aimed at using such watersheds, by analyzing options with a generation capacity to optimize the energy supply in the light of the future needs of the country in the Electricity Sector. Therefore, a major potential was determined in the Southern region of the country, specifically the Brunca Region, leading to a series of technical and feasibility studies that gave rise to the investment referred to as El Diquís Hydroelectric Project, which seeks to use the flow of Rio General for the generation of an estimated hydroelectric power of 650 megawatts (MW), and a generation of 3,050 gigawatts hour (GWh/year).

The decision to develop El Diquís was the result of an evaluation of the expansion plans. These studies take into account the existing system and the available options to meet future electric power needs. Based on the simulation models developed for such purpose, it was determined that El Diquís is part of the lower economic-cost plans. These programs minimize the costs of investment, operation, and failure probability, while guaranteeing the compliance with the minimum reliability requirements.

El Diquís is expected to start operating in 2026. The expansion plan will be adjusted according to new demand forecasts, but the initial start-up date for El Diquís is kept due to its strategic nature. If the new demand forecasts indicated a higher growth of electricity consumption, the plan would be adjusted by adding fast-implementation projects, and otherwise, the adjustment is made by delaying or suspending minor projects, so that the date of El Diquís is not changed and the expansion plan is still optimized.

El Diquís is a strategic project for the development of the electricity system because it plays two key economic roles: meet the increasing demand and offset the variations in the variable generation sources. By 2026, when El Diquís is expected to start operating, the demand of the country will be higher than 14.000 GWh, an increase of 50% over the current electricity consumption. The long-term planning studies have determined that El Diquís is the economically optimal option to meet the increasing demand of future decades. Moreover, the reservoir and the high installed capacity of the plant will allow offsetting the fast variations of wind and solar power generation, which would be otherwise unacceptable in the generation system. The energy storage capacity at El Diquís makes it possible to increase the penetration of these variable sources without compromising the quality of the service.

El Diquís Hydroelectric Project was declared a matter of national interest in Executive Order No. 34312-MP MINAE in 2008. Such declaration means that every process needed to implement it, including financing procedures, environmental studies, and others, will

(Continues)

be a priority for every governmental institution involved, by submitting the related activities to fast and effective procedures.

Therefore, as previously indicated, as of 2000, ICE started conducting a series of technical and feasibility studies to justify the feasibility and relevance of the project, which led to an investment amounting to ¢86,455 million (¢85,364 million in 2016) as of June 30, 2017. This investment includes the costs incurred for a series of activities to implement the Environmental Impact Assessment, which as of the date of this report is at an advanced stage, followed by its submission to the National Technical Environmental Secretariat (SETENA), the body in charge of reviewing, approving, and issuing the Environmental License. The purpose of this study is to identify, forecast, and assess the environmental impacts that might have positive and negative effects on the environment and to develop an Environmental Management Plan Forecast aimed at preventing, correcting, mitigating, or offsetting such effects by seeking the sustainable development of the project. In implementing such a study, ICE has not only considered the requirements established by the local laws and regulations, but also, as a benchmark, the requirements of some international financial institutions as part of the terms and conditions to finance projects of this nature.

Together with this environmental study, and as part of the elements needed to meet the aforementioned local and international regulatory requirements, as well as those established by the United Nations (UN) in ILO Convention 169 on Indigenous and Tribal Peoples in Independent Countries, ratified by our country in 1992, a process known as Indigenous Consultation was included, and due to the location of the aforementioned hydroelectric project, it takes into consideration indigenous territories that will be affected by the construction of the reservoir. In light of this situation and under the responsibility of the Government of Costa Rica, the aforementioned consultation was started to establish a dialogue platform between the Government and the indigenous peoples and develop a regulatory instrument to regulate the activities to be defined regarding the effects of the implementation of El Diquís Project. The completion of the agreements involved in this consultation process, which are a binding element to grant the aforementioned Environmental License, is foreseen for 2017. Initially and due to the deficiencies in the dialogue process, some legal proceedings were filed by Asociación de Desarrollo Integral de la Reserva Indígena de Térraba, which are being settled as part of the Indigenous Consultation.

Based on the feasibility studies conducted, an amount of about US$4.000 million (including scaling and financial expenses) was estimated as the value of the investment to implement such a hydroelectric project. To finance such investment, ICE has relied upon a work team, known as Financing Commission, which has been exploring financing plans in the light of the foreseen business model, which may have, at the

(Continues)

beginning, local and regional impacts by meeting the energy requirements of the country and Central America, in which the Regional Electricity Market (MER) operates. As a significant element of the process to search for the financing of such project, it must be taken into account that this is a project of public interest, as indicated above, and since it is a renewable energy project, it strengthens the negotiations that might be required for this financing.

In general, in the opinion of ICE's Corporate Governance Division, El Diquís Hydroelectric Project is essential to implement the plan to expand the energy generation capacity to meet the foreseen energy demand in the future, when there are projections for a strong national electricity market. Moreover, the activities performed by ICE before the implementation of the project represent proactive efforts to make the aforementioned financing process easier.

(2) Fourth Cliff Hydroelectric Project

This project consists of using the waters of the Reventazón river, which water resource is intended to be used once again for the generation of electricity. The project would be located immediately next to the hydroelectric plant, in order to use its restitution waters. The water intake would be located under the restitution, and it would be conveyed to a machine room and subsequently restituted to the river waters.

The future plant would operate in line with Reventazón, following its same production schedule. In this way, a reservoir would not be required, which makes it very attractive.

(Continues)

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

Note 16. Intangible Assets

Intangible assets are detailed as follows:

		As of June 30, 2017	As of December 31, 2016
Intangible useful life defined			
Licences, sytems, and applications	¢	111,221	104,461
Subtotal		**111,221**	**104,461**
Accumulated amortization			
Licenses, systems and applications		(87,488)	(83,012)
Subtotal		**(87,488)**	**(83,012)**
Intangible useful life defined net		**23,733**	**21,449**
Intangible indefinite useful life			
Rights of way and easements (1)		29,007	28,740
Goodwill (2)		2,813	2,813
Rights guaranteed by law		2	2
Subtotal		**31,822**	**31,555**
Accumulated amortization			
Goodwill amortization		-	(444)
Subtotal		**-**	**(444)**
Net Intangible indefinite useful life		**31,822**	**31,111**
Net total	**¢**	**55,555**	**52,560**

(Continues)

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

The movement of intangible assets is shown as follows:

		Intangible useful life defined		Intangible indefinite useful life							
		Licences, sytems, and		Rights of way and easements (1)		Rights guaranteed by law		Goodwill (2)		Total	
		As of June 30, 2017	As of December 31, 2016	As of June 30, 2017	As of December 31, 2016	As of June 30, 2017	As of December 31, 2016	As of June 30, 2017	As of December 31, 2016	As of June 30, 2017	As of December 31, 2016
Cost:											
Opening balance	¢	104,461	105,497	28,740	25,576	2	2	2,813	5,863	136,016	136,938
Additions		10,093	19,096	273	3,164	-	-	-	-	10,366	22,260
Transfers		284	(10,909)	-	-	-	-	-	-	284	(10,909)
Retirements		(3,617)	(9,223)	(6)	-	-	-	-	-	(3,623)	(9,223)
Adjustments		-	-	-	-	-	-	-	(3,050)	-	(3,050)
Total cost	¢	**111,221**	**104,461**	**29,007**	**28,740**	**2**	**2**	**2,813**	**2,813**	**143,043**	**136,016**
Accumulated amortization											
Opening balance	¢	83,012	72,451	-	-	-	-	444	601	83,456	73,052
Amortization - expense		6,649	14,984	-	-	-	-	-	(157)	6,649	14,827
Amortization - investment		186	408	-	-	-	-	-	-	186	408
Reclassifications		-	-	-	-	-	-	(444)	-	(444)	-
Transfers		59	(3,584)	-	-	-	-	-	-	59	(3,584)
Retirements		(2,418)	(1,247)	-	-	-	-	-	-	(2,418)	(1,247)
Total amortization		**87,488**	**83,012**	**-**	**-**	**-**	**-**	**-**	**444**	**87,488**	**83,456**
Net total	¢	**23,733**	**21,449**	**29,007**	**28,740**	**2**	**2**	**2,813**	**2,369**	**55,555**	**52,560**

Amortization Method

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

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) Easements and Rights of Way

Easements and rights of way correspond to the payments made to the owners of lands which ICE Group requires to access to develop different projects and provide electricity and telecom service; however, these rights are mainly originated in the transmission lines. According to the terms of the agreements, ICE is only entitled to easements or rights of way, but this does not mean the purchase of lands or transfer of ownership to ICE and does not establish a term in years for exercising the right, establishing a permanent easement.

(2) Goodwill

This is excess acquisition cost over the carrying amount (net equity) of the subsidiary acquired in 2013: Eólico Valle Central, S.A (merged in 2014 with CNFL)

(Continues)

(In millions of colones)

Note 17. <u>Guarantee and Savings Fund (Restricted Fund)</u>

The balance of this account shows the total value of the economic contributions made by ICE to the Guarantee and Savings Fund and the Supplemental Pension Plan, as well as the value of the capitalizations recognized by such funds on these contributions net of the applications due to early withdrawals, pension rights, settlements, and actuarial adjustments. A detail of this account is as follows:

		As of June 30, 2017	As of December 31, 2016
Contribution to the Supplemental Pension System	¢	127,243	124,725
Contribution to the Guarantee and Savings Fund System		86,355	84,101
Total	**¢**	**213,598**	**208,826**

The contributions made by ICE to these regimes are aimed at achieving the objective or activities related to the origin of such regimes. The benefit plans derived from these two regimes are managed by the fund known as Guarantee and Savings Fund. The assets, liabilities and equity of such regimes are managed separately and are not included in the separate financial statements of ICE.

Furthermore, the Supplemental Pension Regime was established to manage the contributions or economic resources aimed at covering the obligation of ICE to recognize additional employee pension benefits.

The financial statements of ICE Group do not show the liabilities or the obligation related to the pensions being paid or the available net assets to cover future employee pension benefits because ICE's accounting policy has been to show only the contributions made to such regime, as indicated above. Such an obligation and net assets are managed and shown separately in the accounting records of the Supplemental Pension Fund-Regime.

(Continues)

(In millions of colones)

Note 18. Securities Payable (Bonds)

The balances of the securities (debt securities) issued by ICE are as follows:

	Currency	Interest rate	Year of maturity	As of June 30, 2017			As of December 31, 2016		
				Long-term	**Short-term**	**Total**	**Long-term**	**Short-term**	**Total**
Internal debt:									
Bond issue	¢	Variable between 3,27% and 9,10% and fixed between 10,87% and 11,45%, (2016: variable between 3,21% and 9,10% and fixed between 10.87% and 11,45%)	2017-2036	255,255	25,076	280,331	255,206	25,000	280,206
Bond issue	US$	Fixed between 5,97% and 7,65%, in 2017 and 2016	2019-2027	320,012	-	320,012	310,547	-	310,547
External debt:									
Bond issue	US$	Fixed between 6,38% and 6,95%, in 2017 and 2016	2021-2043	573,400	-	573,400	556,440	-	556,440
Other:									
Premium bond issue	¢	Variable between 6,20% and 7,45% and fixed between 5,98% and 11,41%, (2016: variable between 6,49% and 8,70% and fixed between 6,95% and 11,41%)	2020-2027	5,954	-	5,954	6,481	-	6,481
Discount bond issue	¢	Variable 6,35% and fixed between 5,97% y el 11,41%, (2016: variable 7,10% and fixed between 5,97% and 11,41%)	2017-2043	(5,071)	-	(5,071)	(5,185)	-	(5,185)
				1,149,550	**25,076**	**1,174,626**	**1,123,489**	**25,000**	**1,148,489**

The securities payable (bonds) denominated in dollars amount to US$1.558 million.

(Continues)

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

Note 19. Notes Payable

The balances of notes payable are detailed as follows:

		As of June 30, 2017	As of December 31, 2016
Internal debt:			
In colones	¢	177,732	173,074
In U.S. dollars		49,754	49,464
External debt:			
In U.S. dollars		682,911	668,156
In yens		80,477	70,577
		990,875	**961,271**
Short-term		102,265	91,351
Long-term		888,610	869,919
	¢	**990,876**	**961,270**

A detail of notes payable by creditor is the following:

		As of June 30, 2017	As of December 31, 2016
Internal debt:			
State-owned banks	¢	219,367	213,170
Private banks		8,119	9,368
External debt:			
Private banks		746,927	718,426
Other creditors		16,461	20,307
	¢	**990,875**	**961,271**

The notes payable in dollars correspond to US$1,275 million and in yens to ¥15.732 million.

(Continues)

(In millions of colones)

The general characteristics of notes payable, classified into internal and external debt in 2017 se are summarized as follows:

General characteristics of debt (U.S. dollars and colones, as indicated)	Interest rate	Currency	Term
Internal debt:	Variable between 2,75% and 10,50%, (2016: variable between 2,00% and 14,00%)	¢	Maturing between December 03, 2021 and October 21, 2045
	Variable between 2,65% y el 6,25%, in 2017 and 2016. Fixed between 1,95% and 8,50%, in 2017 and 2016	US$	Maturing between January 30, 2018 and December 15, 2022
External debt:	Variable between 2,09% and 6,40% (2016: Variable between 1,85% and 6,40%) Fixed between 0,70% and 6,40%, in 2017 y 2016.	US$	Maturing between February 15, 2018 and September 15, 2040
	Fixed between 0,60% and 2,20%, in 2017 and 2016.	JPY	Maturing between April 20, 2026 and August 20, 2054

Enforcement Clauses (Covenants):

Normally, credit agreements establish a series of commitments on environmental, legal, financial, operational and business matters, among others, that the debtor should take care of, and that are usually known as "Covenants." In the particular case of ICE, some of the executed contracts to date include "Positive covenants" and "Negative covenants," which establish commitments ICE unavoidably shall comply with and restrictions or limitations to certain acts, that generally require previous approval from the creditor entity.

Some of the loan agreements also establish clauses called:

a) *Cross Default:* these indicate that upon execution of the agreement, ICE expressly and irrevocably accepts that noncompliance of the obligations, payment and/or any other credit terms and conditions, and/or the credits ICE maintains in force with other creditors, constitute causes of acceleration of the credit for which the "Cross Default" clause was established, and for all the credits in force from the same creditor.

b) *Pari Passu Obligations:* whereby ICE agrees that its obligations under the corresponding agreement and its guarantees constitute, in every moment, obligations with a priority on payment right, at least equivalent (pari passu) to any other obligations, current or future, arising from any ICE´s debt (different from any preferred debt as mandated by law.)

(Continues)

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

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

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

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

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

e) It will have and make each of its subsidiaries acquires insurance with responsible or reputable insurance associations or companies, in the amounts and with the risk coverage usually taken by the companies in similar businesses, and that have similar properties in the same general areas in which the Borrower or such subsidiary operates.

f) It will comply and make that each of its subsidiaries comply with, substantially, the Laws, Rules, Regulations and applicable orders, and such compliance shall include, among others, compliance with Environmental Laws, except when it is not reasonably expected that noncompliance has a Substantial Negative Effect.

(Continues)

As of June 30, 2017, quarterly compliance financial covenants regarding debt agreements comply with the established limits, except for the following cases that have the respective waivers.

(Continues)

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

Note 20. Financial Lease Obligations

As of June 30, 2017 and 2016, financial lease obligations are detailed below:

	Interest rate	Year of maturity	As of June 30, 2017			As of December 31, 2016		
			Long term	**Short term**	**Total**	**Long term**	**Short term**	**Total**
Trust in colones								
Telecommunications building	Variable 7,35%, in 2017 and 2016)	2030	18,475	926	19,401	19,066	778	19,844
RANGE	Variable 11,10%, in 2017 and 2016)	2034	15,350	432	15,781	14,176	153	14,330
Reventazón Hydroelectric Power Plant	Variable 8,75%	2033	225,968	7,065	233,034	229,585	6,753	236,338
Trust in US dóllars								
Reventazón Hydroelectric Power Plant	Variable 6,94% (variable 8,75%, in 2016)	2033	235,447	7,465	242,912	231,923	6,933	238,856
			495,240	**15,888**	**511,128**	**494,750**	**14,618**	**509,368**

Notes payable in US dollars amount to US$1,580 million.

The balances detailed herein are related to obligations derived from the financial lease agreements entered into with the Trusts in charge of financing the implementation of the aforementioned projects.

In the case of the Reventazón Hydroelectric Project, the liabilities resulting from accounting for the respective assets are related to the obligations assumed by the Trust in colones and US dollars.

(Continues)

(In millions of colones)

Note 21. Accounts Payable

Accounts payable are as follows:

		As of June 30, 2017	As of December 31, 2016
Materials suppliers	¢	56,751	57,373
Taxes		17,483	15,940
Payroll and employee withholdings		7,990	7,752
Other creditors		54,280	60,080
Total		**136,504**	**141,145**
Less reclassification of long-term portion	**¢**	**(8,650)**	**(9,241)**
Short-term	**¢**	**127,854**	**131,904**

Note 22. Income Received in Advance

Income received in advance in the short and long term is as follows:

		As of June 30, 2017		As of December 31, 2016	
		Long-term	**Short-term**	**Long-term**	**Short-term**
Prepaid mobile services (1)	¢	-	6,903	-	5,443
Government grants (2)		7,135	308	6,071	308
Transfer in Property Spare Parts - Materials (3)		-	9,843	-	8,958
Other		-	2,469	-	1,489
Total	**¢**	**7,135**	**19,523**	**6,071**	**16,198**

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

(Continues)

(1) Prepaid mobile:

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

(2) Government subsidies:

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

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

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

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

(Continues)

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

Note 23. Accrued Expenses for Employer Obligations

Accrued expenses for employer obligations are as follows:

		As of June 30, 2017	As of December 31, 2016
Back-to-school bonus	¢	10,510	20,684
Vacations		32,028	32,457
Statutory Christmas bonus		14,197	1,733
Occupational hazards		277	485
Work mobility compensation		8	8
Total	**¢**	**57,020**	**55,367**

Movement of accrued expenses for employer obligations is as follows:

		Statutory Christmas bonus	Back-to-school bonus	Vacations	Occupational hazards	Third and fifth biweekly salary payment	Work mobility compensation	Total
2017								
Opening balance	¢	1,733	20,684	32,457	485	-	8	55,367
Expensed - investments		3,236	1,624	2,561	336	4,178	-	11,935
Expensed - operations		9,447	8,808	8,069	-	-	-	26,324
Used		(219)	(20,606)	(11,059)	(544)	(4,178)	-	(36,606)
Total	**¢**	**14,197**	**10,510**	**32,028**	**277**	**-**	**8**	**57,020**

		Statutory Christmas bonus	Back-to-school bonus	Vacations	Riesgos Profesionales	Third biweekly and fifth	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**

(Continues)

(In millions of colones)

Note 24. Employees' Legal Benefits

Employees' legal benefits are as follows:

		As of June 30, 2017			As of December 31, 2016		
		Long term	**Short term**	**Total**	**Long term**	**Short term**	**Total**
Severance benefits	¢	111,324	25,200	136,524	106,829	26,650	133,479
Total	**¢**	**111,324**	**25,200**	**136,524**	**106,829**	**26,650**	**133,479**

The movement of the employees' legal benefits is detailed as follows:

		Severance benefits
2017		
Opening balance	¢	133,479
Expensed - investment		2,761
Expensed - operation		13,068
Used		(12,784)
Total	**¢**	**136,524**

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

(Continues)

(In millions of colones)

Note 25. <u>Legal Provisions</u>

Legal provisions are as follows:

		As of June 30, 2017	As of December 31, 2016
Provision for contingent liabilities	¢	3,291	2,708
Total	**¢**	**3,291**	**2,708**
Less: current portion		**2,317**	**2,476**
Long-term legal provisions		**974**	**232**

The movement of legal provisions is detailed as follows:

		Provision for contingent liabilities
2017		
Opening balance	¢	2,708
Expensed - investment		1,442
Used		(859)
Total	**¢**	**3,291**

		Provision for contingent liabilities
2016		
Opening balance	¢	3,735
Expensed - investment		1,924
Expensed - operation		255
Used		(3,206)
Total	**¢**	**2,708**

(Continues)

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

Note 26. <u>Retrospective Adjustments</u>

During the period ended as of June 30, 2017, the figures corresponding to the Statement of Income and Expenses as of June 30, 2016 were restructured due to different adjustments with retrospective effect. The adjustments retrospectively applied to the corresponding figures of ICE Group as a result of the matters mentioned above are the following:

	Operation and maintenance costs (note 28)	Operation and maintenance of leased equipment (note 29)	Production management	Marketing expenses (note 32)	Preinvestment studies (note 34)	Preliminary studies (note 33)	Other operating expenses (note 35)	Other expenses (note 36)	Surplus (deficit), net
Balances as of June 30, 2016, previously reported	¢ 116,650	48,862	35,686	108,188	2,228	12,592	1,783	14,780	(22,962)
<u>Accumulated effect of changes in accounting policies and adjustments for corrections in 2016:</u>									
Adjustment for write-off of improvements in "Other operating assets" (1)	1,294	1	12	55	-	50	-	-	(1,411)
Adjustment to Decrease of the Allowance for Valuation of Stock in Warehouses (2)	(2,000)	-	(500)	-	-	-	-	-	2,500
Adjustment from Percentage Change on "Worker´s Compesation" Policy (3)	(402)	(10)	(26)	-	(67)	(65)	(260)	(3,706)	4,536
Adjustment for effect of actuarial studies (severance benefits and vacations. (4)	3,873	109	1,380	1,762	567	148	42	488	(8,367)
Total effect of adjustments for changes in accounting policies and for corrections in 2016	2,764	100	866	1,817	500	132	(218)	(3,218)	(2,744)
Subtotal adjustments	2,764	100	866	1,817	500	132	(218)	(3,218)	(2,744)
Balances as of June 30, 2016, restated	¢ 119,414	48,962	36,552	110,005	2,728	12,724	1,565	11,562	(25,706)

(Continues)

(1) Adjustment to Write-Off Improvements of "Other Operating Assets"

As a result of the analysis of the improvements corresponding to depreciable assets using the production unit method (depreciation by use), we determined that there is no technical criterion or supporting documentation of some improvements, which could make it capable of providing evidence that supports the increase in the economic life or production capacity of the assets associated to the improvement; therefore, it was decided to write off the improvements that show this situation.

(2) Adjustment to Decrease of the Allowance for Valuation of Stock in Warehouses

As a result of the analysis made to inventory management, we identified an excess in the amount of the allowance for valuation of stock at warehouses; therefore, we proposed to decrease such allowance, carrying its retroactive effect for 2016.

(3) Adjustment from Percentage Change on "Worker's Compensation" Policy

Through the analysis made of the accumulated expense account, we determined that the insurance percentage to the worker's compensations rate were not updated to apply during 2016, according to that indicated by the National Insurance Institute, which resulted in an increase to the provision. Thus, an adjustment was proposed to correct this, affecting the results of the 2016 period.

(4) Adjustment from Actuarial Studies' Effect (severance pay and vacation)

Adjustment from recognition of accounting effects of actuarial studies on those employees' benefits associated to severance and vacation, quantified since 2014 until 2016. Such modification represents the adoption of the new policy, and it led to the retroactive application of its effects to previous periods.

(Continues)

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

Note 27. **Memoranda Accounts**

		As of June 30, 2017	As of December
Guarantees received:			
Performance bonds (1)	¢	169,229	146,357
Collection agentes (2)		3,925	3,762
Bid bonds (3)		474	559
Tenders		8	8
Guaranty deposits		395	178
Subtotal		174,031	150,864
Other guarantees received - Sundry services		1,666	1,949
Credit memoranda accounts - Other - Surety		1,680	1,522
Consigned assets		-5	34
Contingent assets:			
Savings and loan fund		29,861	28,756
CNFL Employees Association (ASEFYL)		13,944	13,549
Performance bonds - procurement		1,950	2,323
Materials in transit		872	1,624
Interest in assets		859	834
Collection of electricity services		1,119	1,131
Materials loan		87	63
Employee guarantees		56	46
Rental of posts		760	785
Performance bonds - labor		52	19
Guaranty deposits (electricity consumption)		3,524	266
Valle Central Wind Power Plant		83	81
CNFL performance bonds		866	840
Subtotal		54,033	50,317
Contingent liabilities:			
Payment arrangement - financing of appliances		161	144
Total	¢	**231,566**	**204,830**

(1) Guarantees Received – 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.

(Continues)

(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 - received

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 28. Income from Services

Regulation of Electricity Services

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

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

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

Telecom Service Regulation

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

(Continues)

(In millions of colones)

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

Note 29. Operation and Maintenance Costs

Operation and maintenance costs include costs related to fuel consumption to generate power by its own or leased thermal power plants; a detail of such costs incurred in thermal power generation is as follows:

		For the period ended on June 30	
		2017	**2016**
Thermic plant:			
Moín I		42	1,046
Moín II		33	505
Moín III		7	830
Others		118	979
Total	**¢**	**200**	**3,360**

Besides the fuel costs indicated in the chart above, ICE Group incurred in such costs related to the Garabito plant amounting to ¢1,767 (¢11,070 in 2016), which are registered in the account referred to as operation and maintenance of leased equipment (see note 28).

(Continues)

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

Note 30. **Operation and Maintenance Costs of Leased Equipment**

Operation and maintenance costs of equipment under operating leases are as follows:

		For the period ended on June 30,	
		2017	**2016 (Restated)***
Group ICE:			
Thermic generation	¢	19,089	28,770
Hydraulic generation		11,692	9,546
Geothermal generation		5,076	5,203
Substations		3,032	3,114
Telecommunications rented		1,769	1,895
Transmission lines		1,317	1,332
Sub total		**41,975**	**49,860**
*Elimination of institutional services		(58)	(898)
Total		**41,917**	**48,962**

* Corresponds to the elimination of internal consumption of telephone and electricity.

(1) Includes fuel costs amounting to ¢200 (¢3.360 in 2016).

Costs for the operating leases of the plants mentioned above amounts to ¢33,172 for 2017 (¢32,848 for 2016).

(Continues)

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

The lease agreement for telecom equipment, transmission equipment, and power plants, excluding agreements that comply with the policy on operating assets and other operating assets under financial leases, are booked and classified as operating leases for financial and tax purposes, as follows:

General features of the agreement						In millions of U.S. dollars											
Service order No.	**Lessor**	**Date of agreement**	**Starting date**	**Approximate expiration date**		**Amount of agreement**	**Total paid**	**Service order balance at June 30, 2017**	**Paid in 2017**	**No. of installments**	**Amount of installment**	**Purchase option**		**Expense in 2017**	**Expense in 2016**	**Frequency**	**Subject of the agreement**
ICE Group																	
Without order	Garabito Thermal Project Trust (1)	05-nov-07	01-jul-10	31-mar-22	US$	743	445	298	26	142	5	213		17,013	16,992	Monthly	Lease for Cariblanco Hydroelectric Power Plant
Without order	Cariblanco Securitization Trust (1)	16-ago-00	29-feb-08	31-dic-19		304	240	64	10	147	2	8		5,759	5,566	Monthly	Lease for Garabito Thermal Power Plant
333059	Las Pailas Geothermal Power Plant (2)	07-mar-07	28-mar-12	31-dic-23		240	98	142	9	24	8	-		4,870	4,757	Half-yearly	Lease for Las Pailas Geothermal Power Plant
Without order	Toro 3 Power Plant Trust (1) and (4)	01-jun-13	30-jun-13	30-nov-24		131	39	93	4	142	$1	-		2,622	2,534	Monthly	Infrastructure for Tejar Step-down Substation/Easements and expansion tower sites for Río Macho Transmission Line
351643	Administrative Board of Cartago's Electricity Service (JASEC) (3)	14-abr-10	04-dic-13	14-abr-22		25	10	15	1	20	Entre US$ 1 637 y US$ 854 (en miles)	-		635	677	Half-yearly	Lease for Toro 3 Power Plant
Subtotal - Operating leases - U.S. dollars					**US$**	**1,443**	**831**	**612**	**51**					**30,898**	**30,526**		
						In millions of colones											
General features of the agreement																	
ICE Group																	
350702	Cooperativa de Electrificación Rural Guanacaste (5)	16-feb-10	06-abr-10	06-sep-21	¢	87,848	42,770	45,078	2,274	138	Variable entre ¢617 y ¢473	¢3.541 aproximadamente	¢	2,274	2,322	Monthly	Infrastructure for electricity transmission line Liberia, Papagayo - Nuevo Colón
Subtotal - Operating leases - colones					**¢**	**87,848**	**42,770**	**45,078**	**2,274**				**¢**	**2,274**	**2,322**		
Total - Operating leases													**¢**	**33,172**	**32,848**		

(Continues)

Below is a description of the main operating lease agreements entered into by ICE Group.

(1) Securitization Trusts:

ICE entered into Securitization Trust Agreements with Banco Nacional de Costa Rica and Banco de Costa Rica, 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 Cariblanco and Toro III hydroelectric power plants, and the Garabito thermal power plant.

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 the 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 of each trust will consist of:

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

(Continues)

a) Tangible and intangible assets of the trustor, which are essential to the object of the contract, will be transferred as trust property to the Trust; the civil works, equipment, facilities, workshops, vehicles, equipment and materials inventory, office equipment, computer equipment, including software, licenses, and any others that have been acquired with the trust's resources for the development of the projects and for the operation and maintenance of the plants, as well as the right to use the land owned by the trustor, as required for the development of the projects, and all the intellectual information and studies produced for and during the development of the project's works in charge of the trusts.

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

c) Any other income obtained by the trusts in the ordinary course of business.

- The trustee may only use the trust assets according to the provisions expressly contained in the trust agreements and pursuant to the instructions issued by the trustor. Both, the trustee's powers of disposal over the trust assets as well as the trustor's powers to issue instructions on such assets, are limited to the execution of those acts that are strictly necessary to fulfill the purpose of the trust.

- 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 must appoint a Manager from the Execution Unit, who should be accepted by the trustee, and who shall act as the superior, with the inherent rights and duties.

- The trustor and the trustee agree that ICE Group will be hired by the Trust to assume the responsibility of the construction of the projects, through an engineering and construction agreement.

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

- The Peñas Blancas trust is for a term of 20 years and the Cariblanco, Garabito, and Toro 3 trusts are for terms of 30 years.

(Continues)

(2) Las Pailas Geothermal Power Plant:

In December 2006, ICE Group's Board of Directors agreed to approve Las Pailas Geothermal Project through an execution-financing scheme referred to as "nontraditional," in which ICE will be the constructor and the Central American Bank for Economic Integration (CABEI) will be the investor, developer, and owner.

Afterwards, ICE Group will technically and commercially operate the infrastructure, acting as lessee, during a term of 12 years, at the end of which it may execute the purchase option for property of the plant.

In March 2007, ICE Group and CABEI signed a contract for the lease with purchase option for Las Pailas Geothermal Plan, which includes the following main provision:

- A lease is set for a term of 12 years with a purchase option for Las Pailas Geothermal Plant, starting upon the satisfactory receipt of the works by ICE Group.

- The total amount of the lease amounts to US$240 (in millions), including lease installments and maintenance fees.

- At the end of the lease term, the purchase option may be executed in the amount of 15% of the total investment accrued during the construction stage.

- CABEI will invest in the construction of the plant in an amount of up to US$130 (in millions).

- 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, consisted of the following items:

  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.

(Continues)

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”. 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 entered into 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-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 Guiro 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. This happened starting on June 4, 2012.

(4) Toro III Hydroelectric Power Project:

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

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

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

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

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

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

- Amounts payable by the lessor for monthly infrastructure maintenance costs.

(Continues)

(In millions of colones)

Note 31. Supplemental Services and Purchases

Supplemental services and purchases are as follows:

		For the period ended on June 30, 2017	2016
Telecommunications:			
National traffic operators	¢	9,061	9,857
Telephone participation		1,794	2,553
Others		2,958	1,978
Total Telecommunications		**13,813**	**14,388**
Electricity:			
Import:			
Regional Operating Entity (EOR)		1,762	8,150
Others		7	3,227
Subtotal import		**1,769**	**11,377**
Private generators:			
Consorcio Eólico Chiripa, S.A. (Contrato B.O.T)		7,586	10,444
Planta Eólica Orosi, S.A. (Contrato B.O.T)		7,537	9,350
Unión Fenosa Generadora La Joya, S.A. (Contrato B.O.T)		6,723	9,069
Hidroenergía Del General (HDG), S.R.L. (Contrato B.O.T)		6,528	6,231
Planta Eólica Guanacaste, S.A. (Contrato B.O.T)		5,627	7,380
Unión Fenosa Generadora Torito		4,797	6,548
Hidroeléctrica Doña Julia, S.A.		4,074	4,090
Inversiones Eólicas Campos Azules S.A.		3,584	-
Fila de Mogote		2,973	
Azucares el Viejo, S.A.		2,859	2,439
Planta Eólica Tilawind, S.A.		2,724	3,109
Hidroeléctrica Platanar, S.A.		2,681	3,035
Proyecto Hidroeléctrico Chucás, S.A.		2,585	
Eólicas Guanacaste S.A.		2,561	
Ingenio Taboga, S.A.		2,247	1,969
Hidroeléctrica Río Lajas, S.A.		2,092	2,239
Plantas Eólicas, S.A.		1,939	2,653
Molinos de Viento Del Arenal, S.A.		1,872	2,612
Proyecto Hidroeléctrico Río Volcán, S.A.		1,858	2,129
Proyecto Hidroeléctrico Pedro, S.A.		1,801	1,954
Planta El Angel, S.A.		1,647	978
Planta Eolica Vientos del Este, S.A.		1,404	1,558
Others		4,646	5,517
Subtotal cogeneradores		**82,345**	**83,304**
Purchases for export:			
Regional Operating Entity (EOR)		4,819	5,449
Total Electricity		**88,933**	**100,130**
Total ICE Group	**¢**	**102,746**	**114,518**

(Continues)

(1) Private generators*:*

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

As of December 31, 2016, ICE Group has entered into six power purchase agreements under Chapter II that correspond to BOT agreements (Built, Operate, and Transfer) with the following private generators: Unión Fenosa Generadora La Joya S.A.; Hidroenergía del General (HDG), S.R.L.; Planta Eólica Guanacaste, S.A.; Consorcio Eólico Chiripa S.A. Unión Fenosa Generadora Torito S.A., Eólicas de Orosi Dos, S.A., and PH Chucás, S.A. and Capulín Wind Project 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 Group. At the end of the term of those agreements, the ownership, management, and operation of the plants will be automatically transferred to ICE, free of any liens and encumbrances. The corresponding private generators or ICE Group may request the early transfer of the power generation plants.

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

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

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

(Continues)

- The private generators take the risk for damage, loss or destruction of the equipment and facilities, during the term of the contract, due to any reason or cause whatsoever that is directly attributable to the private generators, its contractors, subcontractors or suppliers, excluding force majeure.

- The purchase price for electricity generated is established in each agreement based on the bid price and the price awarded in the corresponding tender processes. The agreements include price adjustment forms for variations due to inflation, and which apply on the operating and maintenance cost component.

From the plant's commercial operation beginning date, the private generators must, at their own expense, obtain and maintain, at least, the following insurance policies, according to their availability in the market: worker's compensation and full liability for physical injuries.

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

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

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

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

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

(Continues)

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

ICE will not make any payments for the power delivered by the private generator exceeding of the maximum power output agreed. Electricity received in light of these agreements is paid at the rates in effect set by ARESEP upon delivery.

Under Chapter I of Law N° 7200, ICE Group signed agreements as of the date the law was enacted, in 1990. As of 2009, once the agreements executed in the nineties started to expire (which maximum term was 15 years), ICE Group proceeded to renewal, for the remaining term of the concessions (which were granted for 20 years.) Currently, agreements are being renewed once the companies obtain new concessions, both for use of water forces, in case of hydroelectric projects, and the generation public service granted by ARESEP. Moreover, new plants are being included and their agreements were entered into a result of the bidding processes 2012 and 2014. Currently, agreements have been entered into with 28 company: 8 wind plants, 2 sugar factories, and 18 hydroelectric plants.

In addition, as of 2012, once ARESEP published the rates for new plants, and the new regulation for Chapter I of Law No. N° 7200 was published, ICE started the selection process of projects with which new agreements will be signed. In June 2012, Bid No. 01-2012 was published, through which five wind projects and six hydroelectric projects were selected, of which agreements were entered into with the wind power projects of Tilawind, Campos Azules and Altamira in Tilarán, and Vientos de la Perla and Vientos de Miramar in Liberia, which became operational in the first quarter of 2015 and the first quarter of 2017. Of the hydroelectric projects, only El Ángel Ampliación executed an agreement and it is currently operational.

(Continues)

In February 2014, Bid No. 02-214 was published, which results appeared in La Gaceta of June 25, and it was final on August 29, once the General Management rejected the motion of appeal filed by one of the participants. In this second bid, 2 wind projects and 4 hydroelectric projects were selected, one of which refused the selection. In December 2015, Vientos del Este Wind Power Generation Plant became operational with a generation of 9 MW, and in July 2016, Mogote Wind Power Generation Plant became operational with a generation of 20 MW. The hydroelectric projects are planning to enter into agreements in the second semester of 2017.

Rate Adjustment for Private Generation Plants

On March 19, 2015, Ruling RIE 027-2015 dated March 13, 2015 was published in La Gaceta to authorize a rate setting for the new wind power plants pursuant to the "Model to set benchmarking rates for new private wind power plants."

Ruling RIE 124-2015 dated December 16, 2015, was published in La Gaceta on December 11, 2015, which authorizes a rate setting for the company Hidroeléctrica Platanar, S.A. and the rest of existing private independent hydroelectric and wind power producers pursuant to the "Rate setting methodology for private independent power producers" (Law N° 7200) that enter into new electricity purchase agreements with ICE Group."

On November 22, 2016, Ruling RIE- 099-2016 dated November 17, 2016 was published in La Gaceta to authorize a rate setting for biomass plants (bagasse) pursuant to the "Rate setting methodology according to the typical costing structure of an electrical power generation plant using sugarcane bagasse to be sold to *Instituto Costarricense de Electricidad* and its indexation formula".

Transfer of Geoenergía de Guanacaste Ltda. Plant to ICE Group

On March 25, 2015, Miravalles III Geothermal Plant, which operated under the modality of agreement of B.O.T. (build, operate, transfer), for a period of 15 years from its startup (under the responsibility of Geoenergía de Guanacaste, Ltda) is transferred to ICE.

(Continues)

(In millions of colones)

Note 32. Administrative Expenses

Administrative expenses are detailed below:

		For the period ended on June 30,	
		2017	**2016**
Remunerations	¢	33,164	34,844
Services		5,402	8,796
Use of service centers		2,769	2,891
Current transfers		885	816
Depreciation of other assets in operation		709	829
Others		11,319	4,279
Subtotal		**54,248**	**52,455**
* Elimination of institutional services		(125)	(75)
Total	**¢**	**54,123**	**52,380**

* Corresponds to the elimination of internal consumption of telephone and electricity services of ehe different areas of the institution.

(Continues)

(In millions of colones)

Note 33. Commercialization Expenses

Commercialization expenses are detailed as follows:

		For the period ended on June 30, 2017	2016 (Reestated*)
Remunerations	¢	32,204	30,556
Materials and supplies		28,036	30,154
Services		21,763	24,075
Use of service centers		12,903	10,567
Current transfers		3,799	2,274
Depreciation of other assets in operation		1,835	2,209
Others		13,275	10,892
Subtotal		**113,815**	**110,727**
* Elimination of institutional services		-	(722)
Total	**¢**	**113,815**	**110,005**

* Corresponds to the elimination of internal consumption of telephone and electricity services of the different areas of the institution.

(Continues)

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

Note 34. **Preliminary Studies**

The expenses of preliminary studies are as follows:

		For the period ended on June 30,	
		2017	**2016 (Reestated)***
Remunerations	¢	2,826	2,933
Use of service centers		991	1,224
Services		154	432
Current transfers		88	91
Depreciation		35	36
Materials and supplies		10	7
Others		351	348
Subtotal		**4,455**	**5,071**
* Elimination of Government services		(9)	(28)
Total	**¢**	**4,446**	**5,043**

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

(Continues)

(In millions of colones)

Note 35. **Pre-Investment Studies**

The costs incurred for pre-investment studies are detailed below:

		For the period ended on June 30,	
		2017	**2016**
P.H Fourth Cliff (1)	¢	885	19
Los Llanos Study (2)		844	2,000
Others		109	209
Total	**¢**	**1,846**	**2,728**

(1) Fourth Cliff Project

The Fourth Cliff project is located immediately next to the Reventazón Plant, and it will use the restitution waters of this plant, which will be conveyed to a machine room and subsequently restituted to the river.

(2) Los Llanos Study

Los Llanos Hydroelectric Project is located in the Basin of Naranjo River. Should the project be implemented, there is a possibility of adding the waters of Brujo River and increasing the generation power to 126 MW provided that its environmental issues under analysis are solved.

(Continues)

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

Note 36. **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. They are detailed as follows:

		For the period ended on June 30,	
		2017	**2016**
Administrative services	¢	1,646	537
Capulin Hydroelectric Proyect		112	123
Chucas Hydroelectric Proyect		112	210
Transmission works for private generation		102	36
Design		37	-
Improvements in the transportation network		25	357
Advance mobile services		28	64
Integral Customer Care		18	30
Other		61	209
Total	**¢**	**2,141**	**1,565**
* Elimination of Government services		(20)	-
Total		**2,121**	**1,565**

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

(Continues)

(In millions of colones)

Note 37. <u>Other Interest and Other Expenses</u>

Other interests and other expenses are detailed below:

Other income		**For the period ended on June 30,**	
		2017	**2016**
Interests and other financial income (1)	¢	13,268	18,500
Foreign exchange differences (2)		5,369	7,981
Construction services (3)		2,318	11,667
Investments income in other enterprises		371	359
Other products (4)		15,624	14,932
Total	¢	**36,950**	**53,439**

Other expenses		**For the period ended on June 30,**	
		2017	**2016**
Interests and other financial expenses(5)	¢	85,231	60,693
Foreign exchange differences (2)		60,556	54,239
Agreements for civil and electromechanical works (3)		3,577	8,356
Other expenses		4,582	3,206
Total	¢	**153,946**	**126,494**

A description of the main transactions is as follows:

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

(2) As a result of the foreign currency transactions of the valuation of assets and liabilities denominated in foreign currency during the period ended June 30, 2017, there was a recognition of the income and expense from foreign exchange fluctuation in the amount of ¢2,318 and ¢60,556, respectively (¢7,981 and ¢54,239 respectively, in 2016). For a valuation of such monetary assets and liabilities at year-end, an exchange rate of ¢573.40 (¢549.44in 2016).

(Continues)

(3) Construction services include invoices for percentage of completion or completed works related to agreements entered into for engineering, design, construction, or other specialized services provided to ICE Group by third parties for projects under construction. The costs related to these construction agreements are registered under "Agreements for civil and electromechanical works."

(4) During the period ended June 30, 2017, ICE Group recognized the following significant income:

- Collection of administrative penalties in the amount of ¢4.954 (¢898 in 2016).
- Third-party lease and maintenance of generation plants in the net amount of ¢431 (¢282 in 2016).
- Others.

(5) During the period ended June 30, 2016, ICE Group recognized financial expenses mainly from interest on bank obligations and loans and fees and commissions on management of derivative financial instruments in the amount of ¢84.514 (¢58.186 in 2016).

Note 38. Tax Regulations

(a) Tax Obligations

ICE has tax obligations governed by the provisions contained in: Income Tax Law N° 7092 and its amendments, Regulations to the Income Tax Law and its amendments, General Sales Tax Law N°6826 and its amendments, Regulations to the General Sales Tax Law and its amendments, General Customs Law and its regulations and amendments, Law No. 8660 for Strengthening and Modernizing Public Entities in the Telecommunications Sector, and General Telecommunications Law.

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(b) Income Tax

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

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

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

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

(c) General Sales Tax

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

Because it is a value-added tax, 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

(Continues)

and telecom services can be applied as a credit to the sales tax liability for the period.

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

Article 39 of the General Telecommunications Law Nº 8642 sets forth a quasi-fiscal tax to finance the National Telecommunications Fund (FONATEL) to ensure compliance with the principles of universal access, universal service, and cooperation. The quasi-fiscal tax will levy on the gross income directly earned by the operators of public telecommunications networks and telecommunications service providers available to the public who generated the taxable event by performing the aforementioned activities and receiving the specific benefit from State activities.

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

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

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(e) Parafiscal contribution to telephony services

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

This contribution has 1% rate of the amounts paid by the owners of a conventional, mobile, prepaid, or postpaid telephone line or any other type of telephony service. The amounts collected must be paid not later than the fifteenth calendar day of each month. Such Law derogates Law 8690, which defines the Red Tax allocated to the financing of the Costa Rican Red Cross

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

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

(g) Customs Duties

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

(h) Other Obligations

ICE also acts as a tax withholding agent for income tax, pursuant to the provisions contained in the Income Tax Law. Under this scheme, the taxpayer is the withholder, and ICE is jointly and severally liable. As withholding agent, ICE is responsible for

(Continues)

withholding the respective tax and for reporting the Tax Authorities on behalf of beneficiaries of income of the types specified below:

- Salaries, labor payments, compensation for personal services and directors´ fees.
- Remittances or credits in favor of nonresidents for services such as transportation, communications, technical and financial advisory, personal services and other services, according to type and rates defined in articles No. 55 and 59 of the Income Tax Law.

Note 39. **Institutional Financial Risk Management**

ICE Group is exposed to the following risks from financial instruments: *credit* risk (noncompliance by customers or counterparties), *liquidity* risk (inability to meet obligations due to lack of liquidity), and *market* risk (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, in the case of ICE Group, credit risk is regulated through the Investment Committee through a rigorous analysis of issuers and camels cards and the liquidity risk is managed by controlling treasury's cash flows of the telecom and electricity sector and regarding market risks through financial hedges or with financial derivatives. As a result, risk exposure is controlled through the Investment Committee.

ICE's Investment Committee is vested with the authority to monitor and control management of the temporary investments of ICE Group's electricity and telecom sectors. This is the body to which the Corporate Financial Division delegates responsibility for defining investment policies and procedures. Therefore, this committee establishes the guidelines (restrictions) in respect of investment decisions, which include investment limits, currency, sector as well as the risk levels for the portfolio composition.

The Investment Committee approves the Investment Strategy document (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. Moreover, there is a follow-up of the risk level through indicators of the value in risks, duration, modified duration, concentration indicators, credit risk indicator, liquidity, among others. Moreover, stress testing and back testing are used to measure the effectiveness of the model used.

Pursuant to the Organizational Autonomous Regulations, the coordination of the Institutional Risk Committee will be under the responsibility of the CEO since the General Management will disappear.

The Corporate Policy for Financial Risk and Financial Hedging Management, effective since 2011, was updated in 2016.

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 investments.

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

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In addition, the Corporate Finance Division has focused its efforts in determining action plans and goals to comply with the financial plan and financial strategy for 2013-2021. For such purpose, it submits quarterly management reports to the top Management.

(a) Credit Risk

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

As a way to mitigate this risk, control and follow up to risk ratings of investments granted by the risk rating agencies is implemented. There are investment limits in the institutional portfolio by market (local and international), by sector (public, rest of the public sector, private sector, and by issue), by sector, by instrument, by issuer, and by issue. For this risk, no collateral has been received as guarantee.

(i) Accounts receivable

Accounts receivable are controlled directly in the energy and telecommunication sectors. The process followed in each Sector to recover accounts receivable can be summarized as follows:

- Issuance of invoice and collection process through messengers in the telecommunications sector, with reminders of outstanding payments.

- Immediate suspension of electric and telephone services, after expiration date shown on the invoice, where the average collection period in the Telecommunications Sector is 29 days and 31 days for the Electricity Sector. The terms are established per sector (Collection Management Policy).

- Online collection process, through contracts with external collectors and banks, or internal collection through ICE Group cashiers.

- 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 collection or coordinating payment arrangements with customers to mitigate arrears.

(Continues)

(In millions of colones)

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

Note 3 of the Significant Accounting Policies explains in detail the accounting policy to record the estimate and the procedure for its administrative and legal collection management.

(ii) *Investments*

From the credit risk or counterparty standpoint, there is control and follow up to the investment ratings held by ICE Group, according to the investment strategy and the risk profile determined by the Investment Committee.

Financial risks to which all financial operations regarding financial instruments are exposed will be determined, such as: short, mid and long term financing, treasury management, credit lines, bank letters, purchase and sale of foreign currencies, investments, bond issuance, purchase of raw materials, among others.

An agreement by the Board of Directors during Meeting 6148 on September 07, 2015, approved a guideline to Authorize the Corporate Division so that in compliance of the Risk Policy and Financial Hedge Strategy, to contract financial derivatives to mitigate the exchange rate and/or interest rate effects in financial transactions, thereby nullifying the agreement issued by the Board of Directors during Meeting Number 6063 on October 23, 2013, to establish a limit of US$970 million and only for colón/dollar hedges.

The investment guidelines are approved by the Board and the Manual of Investment Policies by Corporate Management and Finance Divisions. The latter contains all the guidelines regarding issuers, instruments and sectors allowed, as well as the matters that must be observed for the Stock Market and Custodians.

(iii) *Impairment Losses*

Ageing of trade account receivables is as follows:

		As of June 30, 2017	As of December 31, 2016
Current	¢	102,284	96,149
Administrative and legal collection		56,210	55,159
Total	¢	**158,494**	**151,308**

(Continues)

Notes to the Consolidated Financial Statements
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Movement in the allowance for accounts receivable is as follows:

		As of June 30, 2017	As of December 31, 2016
Opening balance	¢	62,522	59,910
Allowance booked during the period		7,114	15,455
Allowance used during the period		(7,589)	(12,843)
Closing balance	¢	**62,047**	**62,522**

(b) Liquidity Risk:

Liquidity risks refers to the potential losses due to anticipated or forced sale of assets with unusual discounts and that do not allow fulfilling obligations, or due to a position not being timely disposed of, acquired or covered through the establishment of an equivalent contrary position, in a timely manner.

Regarding liquidity risk, actions have been generated for the energy and telecommunications businesses to provide a higher level of security in the projection of payments of the liabilities contracted, as well as a more rigorous stance on income projection, resulting in the ability to control treasury cash flow. These measures in the projection of liabilities and expenses, as well as for the income of both sectors, allow follow up and control of cash flow or liquidity risk, and also a better management of treasury operations, regarding the purchase and sale of currencies and access to short and medium term credit lines, among others.

The Corporate Finance Division performs short, mid and long term cash flow projections that are used to estimate purchase of foreign currency, short-term financing, as well as anticipate liquidity needs.

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Treasury management involves preparing the projected cash flows with the Company´s budget information. It also prepares on a weekly basis a schedule with the daily cash inflows and outflows, which allows visualizing the behavior of cash flows and determining the daily liquidity needs. As part of this process, in order to obtain the most accurate payment information, especially for those cases where based on their amount have a large impact in petty cash, and in compliance with the Treasury policies, the businesses, and different areas of the company should send the payment schedule corresponding to 12 months. In addition, an important input is the information obtained from the Institutional Payment System, which not only provides the exact amount to be paid but also the maximum payment date, as established in the agreements.

Similarly, inputs and coordination with businesses regarding the behavior of income and the areas responsible for managing financing that allow a better matching are important, in order to optimize Treasury Management and obtain a better and timely attention of the payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Likewise, the Treasury policies establish the terms of payment for providers, which is for a maximum of 30 days, once a week, except for the engagements where payoff date is fixed or ineludible, as of the event that originates the payment and presentation of invoice. Also, the policies establish the bank transfer as payment method, and payment orders are processed through the institutional payment system.

Lines of credit are part of the instruments that Management uses to finance working capital needs, issue of performance or bid bonds, opening and refinancing of letters of credit, which use throughout the years has allowed it to become one of the most popular short term financing options.

Lines of credit are approved as follows: amounts greater than US$20 million are approved by the Board of Directors and amounts equal to or of less than US$20 million are approved by the Corporate Procurement Board. Shortfalls are determined based on the schedule of cash inflows and outflows along with the required terms so as to obtain quotes and borrow funds from the lowest cost bank. Line of credit transactions are documented with a promissory note. The purpose of using lines of credit is covering mismatches between the date of receipt of income and the date of payment of obligations and other liabilities, typical of cash flow management.

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(c) Market Risk:

The market risk is the risk resulting from changes in market prices, for example, exchange rates, and interest rates affecting ICE's income or the value of the financial instruments it keeps. The goal of risk management is to manage and control exposure to this type of risk within reasonable parameters while optimizing profitability.

ICE Group acquires derivative financial instruments to administer part of the existing market risk, which are valued according to the value provided by the instrument's issuer. Hedge accounting is used for those instruments that qualify, in order to mitigate volatility in the market prices of the financial instruments that have an effect on profit or loss.

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

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

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(In millions of colones)

The general characteristics of the positions exposed to market risk that are being covered with derivatives are presented as follows:

Detail		**PR002** **Tranche B D080172**		**PPF017** **Dollar/colon Tranche B-1** **E14-92583**		**PR003** **Tranche A D091319**		**PFI-019** **Dollar/colon Tranche A-1** **E15-96556**		**PR004** **Yens** **NEM120618ICE**		**PF-021** **Yenes C34569**
Hedged debt:		BID-1931 B/OC-CR		PR002		BID-1931 A/OC-CR		PR003		JIBC-CR-P3		JIBC-CR-P3
Principal amount	USD	30	USD	30	USD	93	USD	93	JPY	4,389	JPY	4,474
Hedged amount	USD	30	CRC	15,986	USD	93	CRC	49,369	USD	48	USD	36
Exchange rate		N/A	CRC	533		N/A	CRC	533.00	USD	91	USD	123
Hiring date		08/05/2008		28/04/2014		27/01/2009		18/09/2015		18/06/2012		03/12/2015
Hedge starting date of first payment		15/08/2008		15/08/2008		14/01/2010		18/09/2015		20/10/2012		20/10/2015
Hedge expiration date		15/02/2018		15/02/2018		14/07/2023		14/07/2023		20/04/2026		20/04/2026
Term		10 years		4 years		15 years		8 years		14 years		10,5 year
Base rate		Libor 6 months		Libor 6 months		Libor 6 months		3.23%		2.2%		2.2%
Spread over/under base rate		4.37%		5.75%		-		-		5.11%		5.01%
Fixed rate		-		-		3.23%		-		-		-
Total Fixed rate		4.37%		5.75%		3.23%		4.23%		5.11%		5.01%
Strategy		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge
Hedged risk		Interest rate		Exchange rate Dollar/colón		Interest rate		Exchange rate Dollar/colón		Exchange rate Yen/dollar		Exchange rate Yen/dollar
Hedge Type		Cash flow hedge		Cash flow hedge		Cash flow hedge		Cash flow hedge		Fair value hedge accounting		Fair value hedge accounting
Hired instrument		Interest rate swap		Non deliverable currency swap		Interest rate swap		Non deliverable currency swap		Cross currency swap		Cross currency swap

Detail		**PR007** **Dollar/colón seven year** **E11-92296**		**PFI022** **Dollar/colón three year** **C3489721003**		**PFI024** **Dollar/colón three year** **C38910**		**PFI026** **Dollar/colón three year** **C39164**		**PFI027** **Dollar/colón three year** **C3489850286**		**PFI023** **Dollar/colón three year** **C3489721052**		**PFI025** **Dollar/colón three year C38912**
Hedged debt:		BID-1908		BID-1908		BID-1908		Bonds 2021		Bonds 2021		Bonds 2043		Bonds 2043
Principal amount	USD	40	USD	50	USD	50	USD	100	USD	200	USD	50	USD	50
Hedged amount	CRC	20,132	CRC	27,815	CRC	27,716	CRC	55,200	CRC	110,850	CRC	27,815	CRC	27,716
Exchange rate	CRC	503	CRC	556	CRC	554	CRC	552	CRC	554	CRC	556	CRC	554
Hiring date		29/03/2011		23/11/2016		23/11/2016		09/12/2016		09/12/2016		23/11/2016		23/11/2016
Hedge starting date of first payment		02/05/2011		25/05/2017		25/05/2017		10/05/2017		10/11/2016		14/05/2017		14/05/2017
Hedge expiration date		02/11/2017		25/11/2019		25/11/2019		10/11/2019		10/11/2019		14/11/2019		14/11/2019
Term		7 years		3 years		3 years		3 years		3 years		3 years		3 years
Base rate		Libor 6 months		Libor 6 months		Libor 6 months		6.95%		6.95%		6.375%		6.38
Spread over/under base rate		2.95 pb		0.90%		0.90%		7.94%		7.72%		6.96%		7.29%
Fixed rate		Base Rate		-		-		-		-		-		-
Total Fixed rate		Base Rate +2,95 pb		2.92%		3.05%		7.94%		7.72%		6.96%		7.29%
Strategy		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge		Hedge
Hedged risk		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón		Exchange rate Dollar/colón
Hedge Type		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Fair value hedge accounting		Cash flow hedge		Fair value hedge accounting
Hired instrument		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap		Non deliverable currency swap

(Continues)

(In millions of colones)

In the case of cash flow hedges, expected cash flows for the primary instrument and hedging derivative are presented below.

Millions of colones		Expected cash flows derived	less than 12 months	over 12 months
Forward staring swap	¢	2,464	1,231	1,233
Plain vanilla swap		382	382	-
Total	¢	2,846	1,613	1,233

Millions of colones		Expected cash flows from liabilities	less than 12 months	over 12 months
BID-1931A/OC-CR	¢	47,576	7,929	39,646
BID-1931B/OC-CR		16,693	16,693	-
Total	¢	64,269	24,622	39,646

Capital Management

The Law for the Creation of *Instituto Costarricense de Electricidad*, Number 449 of April 8, 1949, article 17 of Chapter IV Assets and Profits, establishes the following: ICE's financial policy shall be to capitalize net profits obtained through the sale of energy and any other source it may hold, in the financing and implementation of national electrification plans and the promotion of the industry based on electric energy.

The Government will not obtain any part of these profits, as ICE cannot be considered an income-producing source for the Tax Authorities, but it will rather use all means at its disposal to increase energy production as the basic industry for the Nation.

The policy is to keep a sound capital base, in order to be viewed with confidence by the general market and to guarantee the ICE Group's future growth.

It aims at maximizing profitability with regards to capital and financial investments, through a proper balance between indebtedness level and invested capital, aiming at decreasing the risk involved.

During the second quarter of 2017, there has been no change in the way ICE Group's capital is managed because the institution is not subject to external capital requirements.

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(In millions of colones)

The adjusted debt-capital ratio of ICE Group at the end of the period of the separate balance sheet is the following:

Index Debt - Capital		Up to June 30, 2017	Up to December 31, 2016
Total liabilities	¢	3,344,823	3,280,390
(-) Cash and equivalent to cash		(130,855)	(174,224)
Debt, net		3,213,968	3,106,166
Total patrimony		2,561,940	2,625,599
Minus:			
Amount accumulated in patrimony in relation to coverage of cash flow		(17,614)	(7,412)
Capital adjusted		2,579,554	2,633,011
Index debt		**1.247**	**1.181**

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as follows:

Value in books of financial assets		Up to June 30, 2017	Up to December 31, 2016
Banks	¢	130,855	174,224
Transitory investments		129,844	112,639
Long term investments		159,001	113,688
Funds of restricted use		26,473	28,518
Documents and account payable		208,090	203,135
Total	**¢**	**654,263**	**632,204**

(Continues)

(In millions of colones)

The maximum credit risk exposure for notes and accounts receivable as of the date of the separate balance sheet by geographical region is the following:

By geographical region		Up to June 30, 2017	Up to December 31, 2016
National	¢	206,108	197,091
External		1,982	6,044
Total by geographical region	**¢**	**208,090**	**203,135**

The maximum credit exposure for notes and accounts receivable by type of client as of the date of the separate balance sheet is the following:

By type of client		Up to June 30, 2017	Up to December 31, 2013
Private people	¢	96,617	97,337
Telephonic administrators		2,078	2,439
Distributing companies s		13,889	10,855
Government		16,485	13,746
Operators and suppliers of services		1,983	6,046
Others		77,038	72,712
Total by type of client	**¢**	**208,090**	**203,135**

(Continues)

(In millions of colones)

The risk ratings for ICE Group reported as of June 30, 2017 are shown as follows:

Issuer	ISIN	Instrument	Risk rating
BAC Bank San José, S.A.	CRBSJ00B1913	Bono BSJ	AAA(cri)
BAC Bank San José, S.A.	CRBSJ00B1921	Bono BSJ	AAA(cri)
BAC Bank San José, S.A.	CRBSJ00B1970	Bono BSJ	AA+(cri)
BAC Bank San José, S.A.	00BSJ00E1790	Recompra	AAA(cri)
BAC Bank San José, S.A.	00BSJ00C58Z7	Certificado de depósito a plazo (macrotítulo)	F1+(cri)
BAC Bank San José, S.A.	CRBSJ00B1640	Bono BSJ	AAA (cri)
BAC Bank San José, S.A.	CRBSJ00B1640	Bono BSJ	AAA (cri)
BAC Bank San José, S.A.	00BSJ00E6401	Certificado de depósito a plazo (macrotítulo)	F1+(cri)
BAC Bank San José, S.A.	00BSJ00E1998	Recompra	AAA(cri)
Bank Cathay.	00CATAYE4096	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE1878	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE0797	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE0417	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE3809	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE3874	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE0664	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE4872	Certificado de depósito a plazo (macrotítulo)	SCR2
Bank Cathay.	00CATAYE1845	Certificado de depósito a plazo (macrotítulo)	SCR2
Central Bank of Costa Rica	0NR0ICE00766	Depósito electrónico a plazo (Dep-BCCR)	BB
Central Bank of Costa Rica	CRBCCR0B4767	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B3330	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4767	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4882	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4874	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B3330	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4270	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4221	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4270	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4296	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4288	Recompra	BB
Central Bank of Costa Rica	CRBCCR0B4080	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4080	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4080	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4080	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4395	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4221	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4221	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4403	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4403	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4726	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4726	Bono estabilización monetaria tasa fija	BB
Central Bank of Costa Rica	CRBCCR0B4403	Bono estabilización monetaria tasa fija	BB
Central American Bank for Economic Integration	CRBCIE0C0272	Papel comercial (privado)	F1+ (cri)
Central American Bank for Economic Integration	CRBCIE0B0083	Bono BCIE	F1+ (cri)
Agricultural Credit Bank of Carthage	CRBCAC0B1561	Bono BCAC	AA+(cri)
Agricultural Credit Bank of Carthage	CRBCAC0B1512	Bono BCAC	SCR AA+
Agricultural Credit Bank of Carthage	CRBCAC0B1520	Bono BCAC	SCR AA+
Agricultural Credit Bank of Carthage	CRBCAC0B1538	Bono BCAC	SCR AA
Agricultural Credit Bank of Carthage	CRBCAC0B1546	Bono BCAC	SCR AA
Agricultural Credit Bank of Carthage	CRBCAC0B1587	Bono BCAC	AA+(cri)
Agricultural Credit Bank of Carthage	00BCAC0E5397	Certificado de depósito a plazo (macrotítulo)	F1+ (cri)
Agricultural Credit Bank of Carthage	00BCAC0C78N0	Certificado de depósito a plazo (macrotítulo)	F1+ (cri)
Agricultural Credit Bank of Carthage	CRBCAC0B1181	Bono BCAC	AA+(cri)
Agricultural Credit Bank of Carthage	CRBCAC0B1496	Bono BCAC	AA+(cri)

(Continues)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

Transmitter	ISIN	Instrument	Rate risk
Mortgage Bank of Housing -BANHVI-	CRBANVIB0094	BANHVI Bond	SCR AA+
Mortgage Bank of Housing -BANHVI-	CRBANVIC0085	Commercial paper	SCR AA+
Bank Improsa	00BIMPRE0344	Certificate of Time Deposit (Macroletter)	SCR2
Bank Improsa	00BIMPRE0484	Certificate of Time Deposit (Macroletter)	SCR2
Bank Improsa	00BIMPRC8984	Certificate of Time Deposit (Macroletter)	SCR2
International Bank of Costa Rica -Miami-	0NR0ICE00051	Overnight	BB
International Bank of Costa Rica -Miami-	0NR0ICE00046	Overnight	BB
Bank Lafise	00BLAFIE3357	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE0817	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE4033	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE5477	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIC35K1	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE0825	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE0684	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIE0841	Certificate of Time Deposit (Macroletter)	SCR2
Bank Lafise	00BLAFIC37K7	Certificate of Time Deposit (Macroletter)	SCR2
National Bank of Costa Rica	CRBNCR0B1737	BNCR bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1737	BNCR bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1745	BNCR bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1745	BNCR bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1752	BNCR bond	AA+(cri)
National Bank of Costa Rica	CRBNCR0B1752	BNCR bond	AA+(cri)
National Bank of Costa Rica	00BNCR0C09Z7	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0C71Y0	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0C20Z4	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0C13Z9	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0E3724	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0E0498	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0E5091	Repurchase	F1+ (cri)
National Bank of Costa Rica	00BNCR0E5729	Certificate of Time Deposit (Macroletter)	F1+ (cri)
National Bank of Costa Rica	0NR0ICE00750	Short Term Investment (Electronic Window)	F1+ (cri)
National Bank of Costa Rica	CRBNCR0B1695	BNCR bond	AA+(cri)
National Bank of Costa Rica	00BNCR0C56Y1	Certificate of Time Deposit (Macroletter)	F1+ (cri)
National Bank of Costa Rica	0NR0ICE00751	Short Term Investment (Electronic Window)	F1+ (cri)
National Bank of Costa Rica	00BNCR0C09Z7	Certificate of Time Deposit (Macroletter)	F1+ (cri)
National Bank of Costa Rica	00BNCR0C11Z3	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7309	BPDC Bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B6954	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0E0139	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEU71	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEZ27	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFA58	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEU97	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7226	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFG86	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEU71	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEU71	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7218	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0E0113	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7325	BPDC Bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7317	BPDC Bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7168	BPDC Bond	AA+ (cri)
Popular Bank And Community Development	CRBPDC0B7341	BPDC Bond	AA+(cri)
Popular Bank And Community Development	CRBPDC0B7341	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEE22	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEE22	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0E0139	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFN95	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFN95	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7275	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEZ27	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFI68	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFG45	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CDU49	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFI68	Repurchase	F1+ (cri)

(Continues)

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

Transmitter	ISIN	Instrument	Rate risk
Popular Bank And Community Development	00BPDC0CDX95	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEO61	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFD89	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7218	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFG86	Repurchase	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7275	Repurchase	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFM96	Repurchase	F1+ (cri)
Popular Bank And Community Development	0NR0ICE00739	Certificate of time deposit (Electronic Window NB)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CDW96	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CFH77	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7259	BPDC Bond	F1+ (cri)
Popular Bank And Community Development	00BPDC0CDD99	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7275	BPDC Bond	F1+ (cri)
Popular Bank And Community Development	CRBPDC0B7275	BPDC Bond	F1+ (cri)
Popular Bank And Community Development	00BPDC0E0139	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CDM23	Certificate of Time Deposit (Macroletter)	F1+ (cri)
Popular Bank And Community Development	00BPDC0CEC24	Certificate of Time Deposit (Macroletter)	F1+ (cri)
PRIVAL Bank,S.A. (Old BANSOL Solutions Bank)	00PRIVAE0690	Certificate of Time Deposit (Macroletter)	SCR2
PRIVAL Bank,S.A. (Old BANSOL Solutions Bank)	00PRIVAC1054	Certificate of Time Deposit (Macroletter)	SCR2
Promérica Bank	CRBPROMB1359	Promérica Bond	SCR AA +
Promérica Bank	00BPROME1427	Certificate of Time Deposit (Macroletter)	SCR AA +
Promérica Bank	CRBPROMB1284	Promérica Bond	SCR AA +
Promérica Bank	00BPROMC68F1	Certificate of Time Deposit (Macroletter)	SCR AA +
Bank Scotiabank of Costa Rica, S.A.	CRSCOTIB1292	Scotiabank Bond	AAA(cri)
Bank Scotiabank of Costa Rica, S.A.	CRSCOTIB1292	Scotiabank Bond	AAA(cri)
National Company of Force and Light -CNFL-	CRCFLUZB0207	CNFL Bond	AAA (cri)
Trust Distinguished Fire Brigade	CRFTBCBB0044	FTBCB Bond	SCR AA
Trust Distinguished Fire Brigade	CRFTBCBB0051	FTBCB Bond	SCR AA
Financial Desyfin	00FDESYE3123	Certificate of Time Deposit (Macroletter)	SCR3
Financial Desyfin	00FDESYE4766	Certificate of Time Deposit (Macroletter)	SCR2
Financial Desyfin	CRFDESYB0218	FDESY Bond	SCRAA
Financial Desyfin	00FDESYE3610	Certificate of Time Deposit (Macroletter)	SCR2
Financial Desyfin	00FDESYE3966	Certificate of Time Deposit (Macroletter)	SCR3
Florida ICE & Farm Company S.A.	CRFIFCOB0972	Fifco Bond	SCR AAA
Florida ICE & Farm Company S.A.	CRFIFCOB0998	Fifco Bond	SCR AAA
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B36H9	Property title	BB
Government	CRG0000B56H7	Property title	BB
Government	CRG0000B56H7	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B56G9	Property title	BB
Government	CRG0000B82H3	Property title	BB
Government	CRG0000B82H3	Property title	BB
Government	CRG0000B78H1	Repurchase	BB
Government	CRG0000B78H1	Repurchase	BB
Government	CRG0000B78H1	Repurchase	BB
Government	CRG0000B43H5	Repurchase	F1+ (cri)
Government	CRG0000B11H2	Repurchase	F1+ (cri)
Government	CRG0000B27H8	Repurchase	F1+ (cri)
Government	CRG0000B29H4	Repurchase	BB
Government	CRG0000B96G5	Repurchase	BB
Government	CRG0000B93G2	Repurchase	BB
Government	CRG0000B96G5	Repurchase	BB

(Continues)

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

Transmitter	ISIN	Instrument	Rate risk
Government	CRG0000B41H9	Repurchase	BB
Government	CRG0000B93G2	Repurchase	BB
Government	0NR0ICE00747	Title of property zero coupon (Window)	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B51H8	Property title	BB
Government	CRG0000B11H2	Property title	BB
Government	CRG0000B27H8	Property title	BB
Government	CRG0000B27H8	Property title	BB
Government	CRG0000B76H5	Title of sovereign real estate adjustable	BB
Government	CRG0000B76H5	Title of sovereign real estate adjustable	BB
Government	CRG0000B76H5	Title of sovereign real estate adjustable	BB
Government	CRG0000B76H5	Title of sovereign real estate adjustable	BB
Government	CRG0000B43H5	Repurchase	F1+ (cri)
Government	CRG0000B45H0	Repurchase	F1+ (cri)
Government	CRG0000B45H0	Repurchase	F1+ (cri)
Government	CRG0000B55G1	Repurchase	F1+ (cri)
Government	CRG0000B75G9	Repurchase	F1+ (cri)
Government	CRG0000B93G2	Repurchase	F1+ (cri)
Government	CRG0000B27H8	Repurchase	F1+ (cri)
Government	CRG0000B75H7	Repurchase	F1+ (cri)
Government	CRG0000B75H7	Repurchase	F1+ (cri)
Government	CRG0000B72G6	Repurchase	BB
Government	CRG0000B97G3	Repurchase	F1+ (cri)
Government	CRG0000B89G0	Repurchase	BB
Government	CRG0000B25H2	Repurchase	BB
Government	CRG0000B43H5	Repurchase	F1+ (cri)
Government	CRG0000B43H5	Repurchase	BB
Government	CRG0000B27H8	Repurchase	BB
Government	CRG0000B61H7	Repurchase	F1+ (cri)
Government	USP3699PAA59	Foreign debt bond Costa Rica	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B81G7	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B72G6	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B81G7	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B55G1	Property title	BB
Government	CRG0000B81G7	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B89G0	Property title	BB
Government	CRG0000B55G1	Property title	BB
Government	CRG0000B60G1	Property title	BB
Government	CRG0000B60G1	Property title	BB
Government	CRG0000B60G1	Property title	BB
Government	CRG0000B60G1	Property title	BB
Government	CRG0000B97G3	Property title	BB
Government	CRG0000B97G3	Property title	BB
Government	CRG0000B55G1	Property title	BB
Government	CRG0000B55G1	Property title	BB
Government	CRG0000B81G7	Property title	BB
Government	CRG0000B27H8	Property title	BB

(Continues)

(In millions of colones)

Transmitter	ISIN	Instrument	Rate risk
Government	CRG0000B42H7	Property title	BB
Government	CRG0000B42H7	Property title	BB
Government	CRG0000B27H8	Property title	BB
Government	CRG0000B72G6	Property title	BB
Government	CRG0000B27H8	Property title	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B96G5	Property title	BB
Government	CRG0000B29H4	Property title	BB
Government	CRG0000B48H4	Property title	BB
Government	CRG0000B57H5	Property title	BB
Government	CRG0000B57H5	Property title	BB
Government	CRG0000B27H8	Repurchase	BB
Government	CRG0000B42H7	Repurchase	BB
Government	CRG0000B60G1	Repurchase	BB
Government	CRG0000B43H5	Repurchase	BB
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2475	MADAP Bond	SCR AA+
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2475	MADAP Bond	AA+(cri)
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2400	MADAP Bond	SCR2
Mutual Group Alajuela-Savings and Loan Housing	00MADAPCQ275	Certificate of mortgage participation	SCR2
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2525	MADAP Bond	SCR AA+
Mutual Group Alajuela-Savings and Loan Housing	00MADAPCQ754	Certificate of mortgage participation	SCR2
Mutual Group Alajuela-Savings and Loan Housing	00MADAPCQ846	Certificate of mortgage participation	SCR2
Mutual Group Alajuela-Savings and Loan Housing	CRMADAPB2467	MADAP Bond	SCR AA
Mutual Group Alajuela-Savings and Loan Housing	00MADAPCQ705	Certificate of mortgage participation	SCR2
La Nación S.A.	CRNACIOB0167	Repurchase	F1+ (cri)
La Nación S.A.	CRNACIOB0142	La Nación S.A. Bond	SCR AAA
La Nación S.A.	CRNACIOB0175	La Nación S.A. Bond	SCR AAA
Mutual Cartago of Savings and Loan	CRMUCAPB1458	Mucap Bond	AA+(cri)
Mutual Cartago of Savings and Loan	CRMUCAPB1474	Mucap Bond	AA+(cri)
Mutual Cartago of Savings and Loan	00MUCAPC7970	Certificate of mortgage participation	SCR2
Mutual Cartago of Savings and Loan	00MUCAPC8028	Certificate of mortgage participation	SCR2
Mutual Cartago of Savings and Loan	CRMUCAPB1441	Mucap Bond	SCR2
Mutual Cartago of Savings and Loan	00MUCAPE0452	Certificate of mortgage participation	SCR2
Mutual Cartago of Savings and Loan	00MUCAPE3738	Certificate of mortgage participation	SCR2
Mutual Cartago of Savings and Loan	00MUCAPE4702	Certificate of mortgage participation	AA+(cri)
Mutual Cartago of Savings and Loan	00MUCAPC8044	Certificate of mortgage participation	SCR2
Costa Rican Oil Refinery	CRRECOPB0012	Standard Recope Bonus	AAA (cri)
Costa Rican Oil Refinery	CRRECOPB0020	Standard Recope Bonus	AAA (cri)
SAFI BAC San José	SAJCPcFI	F.I. Bac San Jose Liquido C No Diversified	SCR AA+F2
SAFI BAC San José	SAJCPcFI	F.I. Bac San Jose Liquido C No Diversified	SCR AA+F2
SAFI Bank of Costa Rica	FI-000000022	F.I. Bcr Liquidity Dollars Non-Diversified	SCR AA+F2
SAFI Bank of Costa Rica	FI-000000066	F.I. Bcr Mixed Dollars Non-Diversified	SCR AAF2
SAFI Bank of Costa Rica	BCRLIcFI	F.I. Bcr Short Term Colones Not Diversified	SCR AA+F2
SAFI Bank of Costa Rica	BCRMX¢FI	F.I. Bcr Mixed Colones Not Diversified	SCR AAF2
SAFI Bank of Costa Rica	FI-000000022	F.I. Bcr Liquidity Dollars Non-Diversified	SCR AA+F2
SAFI Bank of Costa Rica	FI-000000066	F.I. Bcr Mixed Dollars Non-Diversified	SCR AAF2
SAFI Bank of Costa Rica	BCRLIcFI	F.I. Bcr Short Term Colones Not Diversified	SCR AAF2
SAFI Bank of Costa Rica	BCRMX¢FI	F.I. Bcr Mixed Colones Not Diversified	SCR AAF2
SAFI National Bank of Costa Rica	FI-000000002	F.I. Bn Dinerfondo Dollars Not Diversified	F1+ (cri)
SAFI National Bank of Costa Rica	BNASUPER$FI	F.I. Bn Superfund Dollars Not Diversified	F1+ (cri)
SAFI National Bank of Costa Rica	FI-000000001	F.I. Bn Dinerfondo Colones Not Diversified	SCR AA+F2
SAFI National Bank of Costa Rica	BNASUPERcFI	F.I. Bn Superfund Colones Not Diversified	SCR AAF2
SAFI National Bank of Costa Rica	FI-000000002	F.I. Bn Dinerfondo Dollars Not Diversified	F1+ (cri)
SAFI National Bank of Costa Rica	BNASUPER$FI	F.I. Bn Superfund Dollars Not Diversified	F1+ (cri)
SAFI National Bank of Costa Rica	FI-000000001	F.I. Bn Dinerfondo Colones Not Diversified	SCR AA+F2
SAFI National Bank of Costa Rica	BNASUPERcFI	F.I. Bn Superfund Colones Not Diversified	SCR AAF2
SAFI Popular Bank	FI-000000006	F.I. Popular Money Market Colones (Non Diversified)	SCR AAF2
SAFI Popular Bank	FI-000000006	F.I. Popular Money Market Colones (Non Diversified)	SCR AAF2
SAFI National Insurance Institute	BANCREDILASD$FI	F.I. Non-Diversified INS- Public Liquidity D	SCR AAF 2
SAFI National Insurance Institute	BACLAD$FI	F.I. Non-Diversified INS- Liquidity D	SCR AAF 2
SAFI National Insurance Institute	BANCREDILASC¢FI	F.I. Non-Diversified INS- Public Liquidity C	SCR AAF 2
SAFI National Insurance Institute	BACLACcFI	F.I. Non-Diversified INS- Liquidity C	SCR AAF 2
SAFI National Insurance Institute	BANCREDILASD$FI	F.I. Non-Diversified INS- Public Liquidity D	SCR AAF 2
SAFI National Insurance Institute	BACLAD$FI	F.I. Non-Diversified INS- Liquidity D	SCR AAF 2
SAFI National Insurance Institute	BANCREDILASC¢FI	F.I. Non-Diversified INS- Public Liquidity C	SCR AAF 2
SAFI National Insurance Institute	BACLACcFI	F.I. Non-Diversified INS - Liquidity C	SCR AAF 2
SAFI SCOTIABANK	ITFCPPUcFI	F.I. No Diversified Public Scotia	SCR AAF2
SAFI SCOTIABANK	ITFCPPU$FI	F.I. No Diversified Public D Scotia	SCR AAF 3
SAFI SCOTIABANK	ITFCPPUcFI	F.I. No Diversified Public Scotia	SCR AAF2
The Bank of Nova Scotia (Costa Rica)	00BNSCRE5279	Certificate of Time Deposit (Macroletter)	F1+ (cri)
The Bank of Nova Scotia (Costa Rica)	CRBNSCRB0021	Nova Scotiabank Bond	AAA(cri)
The Bank of Nova Scotia (Costa Rica)	00BNSCRE4116	Certificate of Time Deposit (Macroletter)	F1+ (cri)

(Continues)

(In millions of colones)

<u>Estimation of Potential Losses:</u>

According to the methodology used in SUGEVAL, adjustments were made in the evaluation of the potential loss for ICE Group´s investments. A risk rating and write-off percentage are assigned to each investment based on the maturity of the instrument, as follows:

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

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

Class	International rating		Local rating	
	Long term	Short term	Long term	Short term
1	AAA y AA	F1, A-1 Y P-1	-	-
2	A y BBB	F2, A-2 Y P-2	-	-
3	BB	F3 Y P-3	Scr-AAA y AAA (cri) scr-AA y AA(cri)	Scr-1 y F1(cri) scr-2 y F2 (cri)

In the case of the Central Bank of Costa Rica, 0% write-off is applied; for Government and Finance Ministry investments, 0.5% write-off is applied; for repurchases, the counterparty rating is used; for investments without risk rating, these are classified under others with 10% write-off; for investments in US dollars, sovereign rating and write-off are applied according to the chart above. The final result corresponds to the "potential loss".

(Continues)

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

Exposure to Liquidity Risk

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

Liabilities		**Value on Books**	**Expected Cash Flow**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Long Term Liabilities							
Securities payable	¢	**1,149,550**	1,135,923	-	23,073	658,247	468,229
Loans payable		**888,610**	853,709	-	109,419	341,439	437,752
Long-term finance leases		**495,240**	450,276	-	63,853	161,166	270,221
Accounts payable		**8,650**	8,650	-	7,362	1,288	-
Total Long Term Liabilities		**2,542,050**	**2,448,559**	**-**	**203,708**	**1,162,141**	**1,176,202**
Circulating							
Securities payable		**25,076**	38,703	38,703	-	-	-
Loans payable		**102,265**	137,166	137,166	-	-	-
Short-term finance leases		**15,888**	60,852	60,852	-	-	-
Accounts payable		**127,854**	127,854	127,854	-	-	-
Accrued finance expenses		**22,525**	22,525	22,525	-	-	-
Total Short Term Liabilities		**293,608**	**387,100**	**387,100**	-	-	-
Total	**¢**	**2,835,658**	**2,835,659**	**387,100**	**203,708**	**1,162,141**	**1,176,202**

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

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:

Millions Dollar		**Book Value**	**Expected Cash Flows**	**6 months or less**	**6-12 months**	**1-2 year**	**2-5 years**	**More than 5 years**
Cross currency swap								
Liabilities	¢	(5,319)	6,612	697	1,281	1,117	2,433	1,083
Cross currency swap								
Liabilities		1,932	4,877	514	945	824	1,794	799
Forward staring swap								
Liabilities		(2,419)	2,464	479	751	513	676	44
Plain vanilla swap								
Liabilities		(376)	382	254	127	-	-	-
Non delivery currency swap Tramo b-1								
Liabilities		(113)	165	109	56	-	-	-
Non delivery currency swap Tramo a-1								
Liabilities		(521)	2,335	326	595	487	849	78
Non delivery currency swap 7 años								
Liabilities		2,499	623	623	-	-	-	-
Cupon swap 3 años								
Liabilities		7	2,980	636	1,205	1,139	-	-
Cupon swap 3 años								
Liabilities		58	2,142	428	857	857	-	-
Cupon swap 3 años								
Liabilities		74	407	81	163	163	-	-
Cupon swap 3 años								
Liabilities		(195)	1,377	275	551	551	-	-
Cupon swap 3 años								
Liabilities		(606)	1,653	275	551	551	275	-
Cupon swap 3 años								
Liabilities		(179)	715	150	283	283	-	-
Total		(4,648)	25,372	4,676	6,943	5,996	5,752	2,004

From December 2016 to June 2017, no new commitments for credit lines with financial institutions used for working capital were booked.

(Continues)

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

Market Risk

Exposure to Currency Risk

As of June 30, 2017, ICE Group's exposure to foreign currency risk is the following:

	Balances in foreign currency					
	U.S. dollars		**Yens**		**Euros**	
	2017	2016	2017	2016	2017	2016
Assets						
Materials in transit for investment	27	44	4,761	5,118	-	2
Long-term investments	53	24	-	-	-	-
Notes receivable	2	6	-	-	-	-
Banks and temporary investments	77	71	-	-	-	-
Restricted funds	1	1	-	-	-	-
Receivables for services rendered	14	21	-	-	-	-
Non-trade receivables	19	18	-	-	-	-
Securities received as guaranty deposits	4	-	-	-	-	-
Materials in transit for operations	14	3	-	-	-	-
Valuation of derivative financial instruments	-	12	-	-	-	-
Total assets in foreign currency	**211**	**200**	**4,761**	**5,118**	**-**	**2**
Liabilities						
Securities payable	1,558	1,558	-	-	-	-
Long-term and short-term loans payable	1,275	1,289	15,732	14,846	-	-
Long- term Financial leases	449	429	-	-	-	-
Guaranty deposits	11	-	-	-	-	-
Accounts payable	106	87	4,646	5,055	-	5
Accrued finance expenses	48	32	-	-	-	-
Deposits from private individuals or companies	-	-	-	-	-	-
Valuation of derivative financial instruments	5	23	-	-	-	-
Result of the valuation of financial instruments	36	20	-	-	-	-
Total liabilities in foreign currency	**3,488**	**3,438**	**20,378**	**19,901**	**-**	**5**
Excess liabilities over assets	**3,277**	**3,238**	**15,617**	**14,783**	**-**	**3**

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, which as of June 30, 2017 was ¢573.40 (¢556.44 as of December 31, 2016).

(Continues)

(In millions of colones)

The main exchange rates used are as follows:

Currency name	Exchange rate with U.S. dollar	
	As of June 30, 2017	**As of December 31, 2016**
Swedish krona	8.43	9.11
Pound sterling	1.30	1.23
Swiss franc	0.96	1.02
Euro	1.14	1.05
Colon	573.40	556.44
Japanese yen	112.09	116.96

(Continues)

(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; these transactions are made at the exchange rate of the day set by the Central Bank.

Sensitivity Analysis

The table below shows the sensitivity as of June 30, 2017 and December 31, 2016, at an increase or decrease in the foreign exchange rate of the US dollar/colón. ICE Group applies a sensitivity index of 10%, which represents its best estimate of foreign exchange rate variations of the US dollar/colón.

dollars		June 2017	December 2016
Sensitivity to an increase in the exchange rate:			
Net dollar position (expressed in colones) at the exchange rates prevailing	¢	1,879,032	1,716,617
Net dollar position	USD	3,277	3,085
10% increase in the exchange rate	¢	2,066,935	1,888,279
Loss	¢	(187,903)	(171,662)
Sensitivity to a disminuicón in the exchange rate:			
Net dollar position (expressed in colones) at the exchange rates prevailing	¢	1,879,032	1,716,617
Net dollar position	USD	3,277	3,085
10% decrease in the exchange rate	¢	1,691,129	1,544,956
Gain	¢	187,903	171,662

This analysis assumes that all other variables, particularly interest rates and the exchange rates, remain constant.

Exposure to Interest Rate Risk

ICE Group maintains important assets and liabilities, mainly represented by short-term investments, long term investments, as well as securities payable and notes payable, obtained for financing its commercial operations, which are subject to variations in the interest rates.

(Continues)

(In millions of colones)

With regards to financial assets and liabilities, a detail of the interest rates is included in the following notes:

	Note
Securities payable	18
Temporary investments	8
Notes payable	19
Long-term investments	6
Effects and receivables	10 y 11
Financial leasing payables	20

Sensitivity Analysis

In interest rate risk management, ICE Group tries to reduce the impact caused by short-term fluctuations in profits. Regarding short-term investments, long-term investments, as well as securities payable and notes payable, permanent changes in the interest rate would have an impact on profits.

During the year ended June 30, 2017, 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:

		Effect on income income-expenditure				
		At June, 2017			**At December, 2016**	
		Strengthening of 1%	**Weakening of 1%**		**Strengthening of 1%**	**Weakening of 1%**
Temporary investments	¢	979	(979)	¢	1,126	(1,126)
Long-term financial investments		1,578	(1,578)		1,137	(1,137)
Long-term receivables		82	(82)		81	(81)
Short-term receivables		68	(68)		24	(24)
Long-term securities payable		11,067	(11,067)		10,965	(10,965)
Short-term securities payable		620	(620)		619	(619)
Long-term payables		6,701	(6,701)		6,351	(6,351)
Short-term payables		937	(937)		2,520	(2,520)
Financial Lease Payable		5,100	(5,100)		5,094	(5,094)
Net effect	¢	**27,133**	**(27,131)**	¢	**27,917**	**(27,917)**

Fair Value Measurements

a) Fair value of ICE Group's financial assets that are recurrently measured at fair value.

Some of ICE Group's financial assets are measured at fair value at yearend. The following table provides information on how fair values of these financial assets are determined.

(Continues)

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

Financial Assets		Period				Fair Value Hierarchy	Valuation Techniques and Key Indicators
		As of June 30, 2017	Type		As of June 30, 2016	Type		
Short-term investments (see note 8)	¢	129,844	Asset	¢	112,639	Asset	Level 1	The valuation is made taking the yield rate, shown in the price vector of Proveedor Integral de Precios (PIPCA) as of 06/30/17.

b) Fair value of ICE's financial assets and financial liabilities that are not measured at fair value recurrently.

Except for what is detailed in the following table, Management considers that the carrying amounts of financial assets and liabilities recognized in the financial statements are approximate to their fair value.

		As of June 30, 2017		As of December 31, 2016	
		Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets					
Loans and accounts receivable:					
- Notes receivable	¢	7,793	5,997	7,723	6,002
Financial liabilities					
Financial liabilities measured at amortized cost:					
- bank loans	¢	1,900,490	1,918,612	1,840,860	1,881,852
- loans at other entities		42,958	49,388	46,807	39,895
- accounts payable		13,273	13,189	21,153	20,799
Financial leases payable		511,128	607,344	509,368	531,750

(Continues)

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

		Fair Value Hierarchy As of June 30, 2017	
		Level 1	**Level 2**
Financial assets			
Loans and accounts receivable			
Notes receivable	¢	-	5,997
Financial liabilities			
Financial liabilities measured at amortized cost:			
- bank koans	¢	1,136,967	781,645
- loans at other entiteis		1,261	48,128
- accounts payable		-	13,189
Financial leases payable		47,512	559,832

Fair value of financial assets and liabilities included in Level 1 and Level 2 categories presented before has been determined according to generally accepted valuation models, which are based on a discounted cash flows analysis, with the most significant indicators, such as the discount rate, reflecting credit risk of the counterparts.

(Continues)

(In millions of colones)

Note 40. Contingent Assets and Liabilities

Current judicial proceedings involving ICE Group as of June 30, 2017 are as follows:

Proceedings	Number of cases	Estimated amount of the claim	As of June 30, 2017	As of December 31, 2016
			Litigation provision	
Contingent assets - lawsuits filed by ICE Group:				
Arbitration (1)	2	4,594	-	-
Ordinary (Administrative) (2)	35	7,194	-	-
Other	130	740	-	-
Total contingent assets	**167**	**12,528**	**-**	**-**

Proceedings	Number of cases	Estimated amount of the claim	As of June 30, 2017	As of December 31, 2016
			Litigation provision	
Contingent liabilities - laswuits filed against ICE Group:				
Administrative proceedings (3)	128	9,858	48	142
Ordinary (Administrative) (4)	30	2,965	1,500	1,342
Administrative and Civil Court of Finance (5)	10	42,214	55	-
Execution of judgment (Administrative)	4	37	37	41
Other	149	5,268	1,652	1,183
Total contingent liabilities	**321**	**60,342**	**3,291**	**2,708**
Less reclassification of long-term portion			**974**	**232**
Short-term			**2,317**	**2,476**

The following is a definition of the main types of proceedings jurisdictions recognized by ICE:

a) Arbitration: the resolution of a litigation without going to an ordinary jurisdiction. The parties, by mutual consent, decide to appoint a third independent party, referred to as arbitrator, or an arbitral tribunal, who will be in charge of the dispute resolution. The arbitrator will be, in turn, limited to the agreements reached by the parties to issue the arbitrational award in accordance with the laws chosen by the parties, or even based on simple equity, if agreed.

b) Contentious: a judicial proceeding to review a conduct under the guardianship of the Contentious Jurisdiction. The Contentious-Administrative Jurisdiction is aimed at protecting the legal situations of every person, guarantee or reestablish the lawfulness of any conduct of the Public Administration subject to the Administrative law, and to hear and resolve different aspects of the legal-administrative relationship (Article 1 of the Contentious-Administrative Procedural Code).

c) Administrative: an administrative proceeding is processed at an administrative court and must comply with the provisions contained in the General Public Administration Law, article 214 paragraph one, to ensure the best compliance with the purposes of the Government and with the subjective rights and legitimate interests of citizens in accordance with the legal system.

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

(1) ICE awarded Verizon, through bidding, the development of the phone books. Due to a breach of contract, ICE filed a complaint at an administrative court in 2005 for damages and requested as interim relief to attach the funds deposited by ICE. The current status of the Proceeding is as follows: "Through a ruling by the First Chamber of the Supreme Court, the defendant is ordered to pay damages caused by the breach of contract, according to the aforementioned estimate." The estimated amount of the complaint as of June 30, 2017 and December 31, 2016 is ¢3,781.

(2) Enforcement of contentious ruling ordering RECOPE to pay to ICE for damages caused by the surcharge resulting from diesel power generation in the Output Centers of Garabito, Orotina and Guápiles due a late delivery of fuel. The amounts awarded in ruling number 133-2016 by the Contentious-Administrative Court. The estimated amounts as of June 30, 2017 and as of December 31, 2016 are ¢7,038 and ¢5,723, respectively.

(3) Call My Way NY S.A., filed a complaint at SUTEL against ICE, arguing that ICE is implementing anti-competitive practices that generate entry barriers in the telecom market for new competitors and which encourage the exit of existing competitors. This is based on the fact that the promotions launched by ICE cannot be reproduced by them nor can they be sustainable for ICE because they are below the costs. Currently, the case is pending resolution by SUTEL. The estimated amount of the proceeding as of June 30, 2017 amounts to ¢8,868.

(4) Through Ruling Number 150-2016, dated October 14, 2016, ICE was ordered to pay ¢948 for contingencies in the stock sale agreement of Cable Visión de Costa Rica, S.A. Moreover, ICE filed a petition for cassation at the First Chamber of the Supreme Court.

(Continues)

(5) The main proceedings of a Contentious and Civil Jurisdiction are related to one of the subsidiaries:

i. Instalaciones Inabensa, S.A. – File Number 5-1194-163-CA: proceeding to collect penalties related to the implementation of the underground electrification project in San José, for an estimated amount of ¢11,138 The plaintiff is seeking the collection of claims and refund of penalties submitted during the implementation stage of the aforementioned project.

ii. Ghella Spa Costa Rica - File Number 10-3471-1027-CA: the complaint is aimed at declaring the nullity of the limitations set forth in Addendum No. 01 to the Agreement for the design, construction, equipment, and implementation of El Encanto Hydroelectric Project, at an estimated amount of ¢21,047.

iii. Grupo Corporativo SARET: The plaintiff filed for an early interim relief against Compañía Nacional de Fuerza y Luz, S.A., because the performance bond was enforced to collect penalties. Moreover, the plaintiff filed a formal complaint for actual damages, lost profits and lost opportunities. The estimated amount of the proceeding is ¢7,766.

These legal proceedings are against the subsidiary Compañía Nacional de Fuerza y Luz, S.A. This subsidiary has appealed and as of June 30, 2017, there are not sufficient evidence to establish a final resolution. Due to this uncertainty, the Management of this subsidiary has deemed it necessary to register any accumulations to cover possible losses that might derive from such resolution.

As of June 30, 2017, ICE´s Legal Department is processing 204 lawsuits for expropriations to enter into possession. There are also 54 lawsuits for forced expropriation to enter into possession and legalize the properties needed for the different works under development.

(Continues)

(In millions of colones)

Note 41. Balances and Transactions with Related Parties

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

Business and Financial Transactions:

During the year, the Institute performed the following business transactions with related parties:

The sales of goods and services to related parties are made at the list prices of ICE Group. The purchases are made at the market price to reflect the amount of assets purchased the relationships between the parties.

		Sale of goods and services	Purchase of goods and services
		For the period ended June 30, 2017	
Construction services:			
Uno P.H. Reventazón, Trust/Scotiabank/2013	¢	1,497	-
Other related parties		6	-
Advisory services:			
Government entities		989	-
Interest:			
Government entities		2,604	-
State-owned financial entities		2,876	4,273
Other services:			
Other related parties		2,062	667
Total	¢	**10,034**	**4,940**

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

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

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

		Balances due from related parties		Balances due to related parties	
		30/06/2017	**31/12/2016**	**30/06/2017**	**31/12/2016**
Government entities	¢	2,156	3,109	-	-
Other related parties		-	-	133,117	127,248
Total	¢	**2,156**	**3,109**	**133,117**	**127,248**

The outstanding amounts are not guaranteed and are expected to be settled in cash. No guarantees have been granted or received. No expenses have been recognized in the current period or previous periods regarding doubtful accounts related to the amounts owed by related parties.

As of June 30, 2017, there were notes payable with state-owned financial entities amounting to ¢96,682 (¢91,769 as of December 31, 2016) (note 20).

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

		As of June 30, 2017	**As of December 31, 2016**
Cash equivalents	¢	55,811	37,860
Held to maturity		78,643	52,833
Restricted funds		26,473	28,518
Total	¢	**160,927**	**119,211**

As of June 30, 2017, interest receivable from state-owned financial entities on securities amounts to a total of ¢2,117 (¢2,121 as of December 31, 2016).

As of June 30, 2017, there are investments in the interests of autonomous and non-governmental entities amounting to a total of ¢15,615 (¢15,352 in 2016) (note 6).

(Continues)

(In millions of colones)

Compensation of Management's Key Staff

The compensation of directors and other key members of management during the 2017 and 2016 periods was as follows:

		As of June 30, 2017	As of December 31, 2016
Short-term benefits	¢	3,114	5,619
Post-employment benefits		360	162
Saverance benefits		214	715
Total	¢	**3,688**	**6,496**

The compensation of management's key staff includes balances and contributions to a defined post-employment benefit plan, for termination, and other long-term benefits paid during the period.

Note 42. Information by segment

(a) Segmentation bases

ICE Group has the following segments to be reported:

- The Telecom Segment includes ICE-Telecommunications Sector, Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional de Costa Rica, S.A. (CRICSA) and Cable Visión de Costa Rica, S.A. (CVCRSA).

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

The information by segment is submitted to the highest authority in charge the operational decision making of the Group with the purpose of allocating resources and evaluating the performance of each segment; it is focused on the different sectors of the Institute (business segment) exposed to risks and different yields.

The results, assets, and liabilities of the segment includes items directly attributable to a segment as well as those that can be reasonably attributed. The information related to each segment is shown below.

(Continues)

(In millions of colones)

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

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

(c) Income and results by segment

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

		For the periods ended June 30					
		Electricity		Telecom		Consolidated total	
Profit and loss by segment		**2017**	**2016***	**2017**	**2016***	**2017**	**2016***
Profit by segment	¢	378,674	409,159	293,229	283,218	671,903	692,377
Depreciation of operating assets		79,514	78,981	70,114	74,687	149,628	153,668
Other income		21,605	33,787	9,975	11,671	31,581	45,458
Other foreign exchange income		4,815	6,968	554	1,013	5,369	7,981
Finance expenses		78,665	53,050	6,567	7,642	85,231	60,693
Other expenses		6,541	10,264	1,618	1,297	8,159	11,562
Other foreign exchange expenses		55,999	50,587	4,557	3,652	60,556	54,239
Consolidated profit (deficit), net		(76,452)	(34,450)	10,855	8,744	(65,596)	(25,706)

*** Restated, see note 26.**

The income by segment as informed in the foregoing paragraphs accounts for the income generated by external clients
The income of the segments is as follows:

- The income from service sales of the Electricity segment to the Telecommunications segment amounts to ¢3,026 in 2017 (¢3,147 in 2016).

- The income from service sales of the Telecommunications segment to the Electricity segment amounts to ¢1,026 k\in 2017 (¢1,377 in 2016).

The accounting policies of the segments that are informed are the same as the accounting policies of the Group as described in note 3. The profits by segment represent the profits earned by each segment without an interest in the results of the period, the financial income, other profits or losses, as well as the financial costs that cannot be allocated to a specific segment. This represents the measurement informed to the decision maker of the operating area for the purposes of allocating the resources and assessing the performance of the segment.

(Continues)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

(a) Assets and liabilities by segments

		As of June 30, 2017 and December 31, 2016					
		Electricity		Telecom		Consolidated total	
Assets and liabilities by segment		**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets	¢	4,639,634	4,659,215	1,267,129	1,246,773	5,906,763	5,905,989
Liabilities		2,829,750	2,778,135	515,072	502,254	3,344,823	3,280,390

To monitor the performance of the segments and allocation of resources among segments:

- there are any assets and liabilities that are not allocated to the segments.

- all the assets and liabilities jointly used by the segments that have to informed are allocated according to the methodology to allocate the expenditures of the Corporation to the Business where the financing percentages are established according to the conductors defined by each unit for the different services provided by the administrative centers and the Service Centers to each business unit. Each service has a specific measurement unit and the allocation is based on the consumption of the services, and the ABC Costing (Activity-Based Costing) is used and approved by the Board of Directors.

(b) Other information on the segment

		Depreciación y amortización			Adiciones a activos no corrientes	
		Periodo terminado 30/06/17	**Periodo terminado 30/06/16**		**Periodo terminado 30/06/17**	**Periodo terminado 30/06/16**
Negocio Telecomunicaciones	¢	70.114	74.687	¢	67.090	41.481
Negocio Electricidad		79.514	78.981		75.915	35.462
	¢	**149.628**	**153.668**	**¢**	**143.005**	**76.943**

(Continues)

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

(c) Income from the main products and services

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

		Year ended June 30, 2017	Year ended June 30, 2016
Telphony, data and internet services	¢	249,729	246,799
Electricity services		371,648	395,370
Other services and products		50,526	50,208
Total	¢	**671,903**	**692,377**

(Continues)