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

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

**KPMG, S. A.**
Multiplaza Boulevard, KPMG Bldg.
San Rafael de Escazu
P.O. Box 10208
San Jose, Costa Rica 1000

Telephone (506) 2201-4100
Telefax (506) 2201-4131
Internet www.kpmg.co.cr

# Independent Auditors' Report

The Board of Directors
Instituto Costarricense de Electricidad (ICE)

*Report on Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Instituto Costarricense de Electricidad (ICE) and subsidiaries ("ICE Group"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the consolidated statements of profit or loss, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. These consolidated financial statements have been prepared by management of ICE Group in accordance with the accounting principles included in ICE's Accounting Policy Manual and accepted by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting principles included in ICE's Accounting Policy Manual and accepted by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

As indicated in note 10, the consolidated financial statements for 2014 include, under the balance of *"Receivables for services rendered"*, the amount of ¢56,519 (in millions) (2013: ¢51,361 [in millions]), corresponding to the Telecom Segment, comprised of balances due from private individuals and companies and the Government derived from the billing of telephone services and info communications, trade balances in administrative and legal collection and receivable balances originating from the sale of devices (terminals). Due to the existence of a number of unusual items generated mainly by errors in the information system, the inadequacy of the information included in the subledgers, and that we were unable to perform alternative audit procedures, we were unable to satisfy ourselves as to the completeness, existence, accuracy, and presentation of those balances. Furthermore, since we were not provided with an aging report of the aforementioned receivable balances to establish their recovery level, we were unable to satisfy ourselves as to the sufficiency or insufficiency of the allowance for doubtful accounts related to those accounts, which as of December 31, 2014 amount to ¢11,737 (in millions) (2013: ¢15,424 [in millions]); as well as the valuation of the balances indicated as of those dates. Management is still in the process of analysis and review to correct the errors identified in the information system (correct and timely generation of information flows from the transaction systems to the accounting systems) of the accounts receivable from the Telecom Segment, which is still in progress. In 2013 this review process generated adjustments that were applied retrospectively for ¢7,645 (in millions) and ¢6,962 (in millions), on the balances of these accounts receivable and the equity item "Development reserve", respectively, for which we were unable to establish their reasonableness and adequate accounting treatment as of that date.

*Qualified Opinion*

In our opinion, except for the effects, if any, of the matters mentioned in the first paragraph of the "Basis for Qualified Opinion" section, the consolidated financial statements of ICE Group as of December 31, 2014 and 2013 and for the years then ended have been prepared, in all material respects, in accordance with the accounting principles included in ICE's Accounting Policy Manual and accepted by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica.

*Emphasis of Matter*

*Basis of Accounting*
Without qualifying our opinion, we draw your attention to notes 2 and 3 to the consolidated financial statements, which describe the basis of accounting. This basis of accounting is not considered an internationally recognized comprehensive basis of accounting. The consolidated financial statements have been prepared with the purpose of complying with the accounting principles included in ICE's Accounting Policy Manual accepted by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica as well as the requirements of current and future creditors and local regulators.

Additionally, without qualifying our opinion, we draw your attention to the matters indicated in the following notes:

- Note 14 "Project Design and Execution" indicates that the consolidated financial statements as of December 31, 2014 and 2013 present an asset in the amount of ¢78,825 (in millions) and ¢71,023 (in millions), respectively, comprised of the value of costs incurred during the investment phase (including the design of the works and technical, economic, and financial studies) of the El Diquís Hydroelectric Project (PHED), which is part of the National Power Generation Expansion Plan. As of the date of this report, ICE has yet to obtain the environmental permit required to begin construction of that project, since the environmental impact study that must be submitted to the National Technical Secretariat for the Environment (SETENA) (organization charged with reviewing, approving, and granting environmental permits) is still being finalized. Furthermore, as mentioned in that note, three legal actions have been filed against the project by the Association for the Indigenous Development of Térraba (ADIT) related to an appeal claiming violation of constitutional rights against the Resolution that declares PHED to be a matter of public and national interest, an administrative appeal related to the ownership of land used by ICE for the project's activities, and an appeal for relief relating to the violation of the term granted to perform the indigenous consultation process. As mentioned in note 14, rulings have been handed down regarding the appeal claiming violation of constitutional rights, the administrative appeal is still in process as of the date of this report, and the final resolution of the appeal for relief by the Constitutional Chamber is pending. Regarding the declaration of PHED as a matter of public and national interest, the Government of Costa Rica created an Inter-agency Coordination Commission to promote collaborative and coordinated development of the Southern Region of Costa Rica within the PHED framework. As of the date of this report there is no work schedule defined for the development of an indigenous consultation process. The responsibility of ICE, as developer of the project, is to provide required information about the PHED as input for discussions between the Government of Costa Rica and indigenous peoples, for the indigenous consultation process.

- Note 25, “Retrospective adjustments” to the 2013 consolidated financial statements describes the effect of a number of changes in accounting policies and adjustments to prior periods that were identified in 2014. As a result of these changes in accounting policies and adjustments, the comparative figures of ICE Group presented in the accompanying consolidated financial statements were restated.

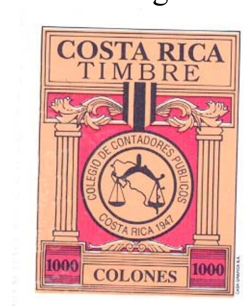
- Note 40, “Contingent assets and contingent liabilities”, describes ICE Group’s various legal proceedings as of December 31, 2014 and 2013, for which a final resolution has not been handed down.

*Other matters*
Our audit report on the consolidated financial statements as of December 31, 2013, dated April 30, 2014, was qualified because of the following situations:

- We did not obtain the supporting documentation for items from inventories in transit aged more than one year, for a total of ¢61,229 (in millions), in the accounts “Materials in transit for investment” and “Materials in transit for operations”, which prevented us from concluding as to the existence, accuracy, and adequate presentation of those inventories in transit as of December 31, 2013. In 2014, ICE Group analyzed and reviewed the balances included in those items, which led to the identification and accounting of adjustments with retrospective effect, and the supporting documentation was provided. Accordingly, ICE Group restated its consolidated financial statements as of December 31, 2013, see note 25.

- As of December 31, 2013, ICE Group used unaudited financial figures in the process of consolidation of its subsidiary Eólico Valle Central, S.A. Consequently, we were unable to determine the effect of adjustments, if any, as might have been determined to be necessary had the financial figures of that subsidiary been consolidated based on audited financial statements. As of December 31, 2014, the situation was corrected without generating any adjustments and the subsidiary Compañía Nacional de Fuerza y Luz, S.A. merged with its subsidiary Eólico Valle Central, S.A. Accordingly, the 2014 financial statements are presented as a single entity.

KPMG




April 28, 2015

San José, Costa Rica
Carlomagno Suñol
Member No. 1868
Policy No. 0116-FIG-7
Expires 09/30/2015

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

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

Consolidated Balance Sheets
(In millions of colones)

As of December 31, 2014 and 2013

| | Notes | | 2014 | 2013 *(Restated)** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Property, machinery and equipment:** | | | | |
| Operating assets, net | 4 | ¢ | 3,630,190 | 3,319,567 |
| Construction work in progress | 5 | | 578,506 | 758,564 |
| Materials in transit for investment | 5 | | 34,184 | 110,290 |
| Inventory for investment | 5 | | 159,871 | 138,045 |
| **Total property, machinery and equipment, net** | | | 4,402,751 | 4,326,466 |
| **Long-term assets:** | | | | |
| Long-term investments | 6 | | 53,778 | 47,727 |
| Notes receivable | 10 | | 7,655 | 7,108 |
| Accounts receivable | | | - | 2 |
| **Total long-term assets** | | | 61,433 | 54,837 |
| **Current assets:** | | | | |
| Cash and cash equivalents | 7 | | 133,143 | 86,278 |
| Temporary investments, net | 8 | | 64,333 | 57,650 |
| Restricted funds | 9 | | 8,035 | 5,406 |
| Accounts receivable, net | 10 | | 167,793 | 152,558 |
| Government receivables | | | - | 614 |
| Notes receivable | 10 | | 3,019 | 2,131 |
| Operating inventory, net | 11 | | 64,276 | 42,915 |
| Prepaid expenses | 12 | | 106,523 | 76,017 |
| **Total current assets** | | | 547,122 | 423,569 |
| **Other assets:** | | | | |
| Non-operating assets, net | 15 | | 47,286 | 42,756 |
| Service agreements | 13 | | 23,931 | 91,584 |
| Project design and execution | 14 | | 110,620 | 98,550 |
| Technical service centers | | | 280 | 170 |
| Amortizable items, net | 18 | | 4,154 | 5,007 |
| Intangible assets, net | 16 | | 51,263 | 60,035 |
| Securities received as guaranty deposits | | | 6,266 | 6,494 |
| Valuation of financial instruments | | | 5,448 | - |
| Guarantee and Savings Fund (restricted fund) | 17 | | 198,623 | 186,364 |
| Transfer to Guarantee and Savings Fund | | | 1,516 | 1,241 |
| Operating inventory | | | 41,879 | 34,764 |
| **Total other assets** | | | 491,266 | 526,965 |
| **Total assets** | | ¢ | 5,502,572 | 5,331,837 |

* See note 25.

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

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

Consolidated Balance Sheets
(In millions of colones)

As of December 31, 2014 and 2013

| Liabilities and Equity | Notes | | 2014 | 2013 (Restated)* |
|---|---|---|---|---|
| **Long-term liabilities:** | | | | |
| Securities payable | 19 | ¢ | 1,128,172 | 1,036,692 |
| Loans payable | 20 | | 740,528 | 622,199 |
| Obligations derived from credit | | | 154 | 262 |
| Security deposits | | | 57,276 | 56,716 |
| Accounts payable | 21 | | 6,048 | 27,168 |
| Prepaid income | 22 | | 4,517 | 4,800 |
| **Total long-term liabilities** | | | **1,936,695** | **1,747,837** |
| **Short-term liabilities:** | | | | |
| Securities payable | 19 | | - | 30,148 |
| Loans payable | 20 | | 118,216 | 182,116 |
| Accounts payable | 21 | | 84,757 | 141,835 |
| Accrued finance expenses payable | | | 22,488 | 19,750 |
| Prepaid income | 22 | | 18,596 | 8,024 |
| Deposits from private individuals or companies | | | 3,620 | 3,884 |
| Legal provisions | 24 | | 10,000 | 12,740 |
| Accrued expenses for employer obligations | 23 | | 41,401 | 37,475 |
| **Total short-term liabilities** | | | **299,078** | **435,972** |
| **Other liabilities:** | | | | |
| Valuation of financial instruments | | | 25,571 | 21,099 |
| Accounts payable | | | 3,182 | 2,685 |
| Legal provisions | 24 | | 33,263 | 42,031 |
| Guarantee and Savings Fund (restricted fund) | 17 | | 198,623 | 186,364 |
| **Total other liabilities** | | | **260,639** | **252,179** |
| **Total liabilities** | | | **2,496,412** | **2,435,988** |
| **Equity:** | | | | |
| Paid-in capital | | | 156 | 156 |
| Development reserve | | | 1,662,774 | 1,662,810 |
| Asset revaluation reserve | | | 1,201,480 | 1,084,043 |
| Result of valuation of financial instruments | | | (6,556) | (10,944) |
| Legal reserve | | | 9,291 | 9,291 |
| Project development reserve | | | 71 | 71 |
| Forest development reserve | | | 989 | 906 |
| Restricted earnings from capitalization of stake in subsidiary | | | 62,380 | 62,380 |
| Retained earnings | | | 70,517 | 82,344 |
| Minority interest | | | 5,058 | 4,792 |
| **Total equity and minority interest** | | | **3,006,160** | **2,895,849** |
| **Total liabilities and equity** | | ¢ | **5,502,572** | **5,331,837** |
| **Memoranda accounts** | 26 | ¢ | **336,025** | **327,755** |

* See note 25

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

| | | |
|---|---|---|
| Claudio A. Dittel Rojas<br>Corporate Chief Financial Officer | Jesús Orozco Delgado<br>Head of Corporate Finance | Lizbeth Hernández Castillo<br>Accounting Process Coordinator |

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

Consolidated Statements of Profit or Loss
(In millions of colones)

For the years ended December 31, 2014 and 2013

| | Notes | | 2014 | 2013 (Restated)* |
|---|---|---|---|---|
| **Operating income:** | | | | |
| Electricity services | 27 | ¢ | 794,488 | 780,470 |
| Telecom services | 27 | | 579,962 | 541,939 |
| Supplemental services | 27 | | 2,424 | - |
| Government services | 27 | | 277 | 391 |
| **Total operating income** | | | **1,377,151** | **1,322,800** |
| **Operating costs:** | | | | |
| Operation and maintenance | 28 | | 279,199 | 256,188 |
| Operation and maintenance of leased equipment | 29 | | 144,200 | 192,811 |
| Depreciation of operating assets | | | 266,706 | 243,738 |
| Supplemental services and purchases | 30 | | 119,733 | 109,409 |
| Production management | | | 72,041 | 80,652 |
| **Total operating costs** | | | **881,879** | **882,798** |
| **Gross profit** | | | **495,272** | **440,002** |
| **Operating expenses:** | | | | |
| Administrative | 31 | | 92,982 | 90,952 |
| Marketing | 32 | | 260,353 | 242,179 |
| Preliminary studies | 34 | | 23,073 | 25,223 |
| Preinvestment studies | 33 | | 5,769 | 5,708 |
| Other | 35 | | 2,951 | 11,281 |
| **Total operating expenses** | | | **385,128** | **375,343** |
| **Operating profit** | | | **110,144** | **64,659** |
| **Other income:** | | | | |
| Finance income | | | 24,539 | 20,508 |
| Foreign exchange differences | | | 24,030 | 41,910 |
| Income from investments in other companies | | | 628 | - |
| Other income | | | 331,193 | 53,369 |
| **Total other income** | 36 | | **380,390** | **115,787** |
| **Other expenses:** | | | | |
| Interest | | | 80,446 | 83,966 |
| Commissions | | | 14,665 | 16,914 |
| Foreign exchange differences | | | 151,577 | 7,643 |
| Other expenses | | | 327,129 | 40,596 |
| **Total other expenses** | 36 | | **573,817** | **149,119** |
| **Profit (loss) before income tax and minority interest** | | | **(83,283)** | **31,327** |
| **Tax and minority interest:** | | | | |
| Minority interest 1.4% | | | 22 | (41) |
| **Profit (loss), net** | | ¢ | **(83,261)** | **31,286** |

* See note 26.

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

Claudio A. Bittel Rojas
Corporate Chief Financial Officer

Jesus Orozco Delgado
Head of Corporate Finance

Lizbeth Hernández Castillo
Accounting Process Coordinator

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

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

For the years ended December 31, 2014 and 2013

| | Paid-in capital | Asset revaluation reserve | Result of valuation of financial instruments | Development reserve | Legal reserve | Project development reserve | Forest development reserve | Restricted earnings from capitalization of stake in subsidiaries | Retained earnings | Minority interest | Total equity and minority interest |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2012, previously reported | ¢ 156 | 1,121,936 | (17,481) | 1,584,267 | 9,074 | 71 | 820 | 62,380 | 91,817 | 4,622 | 2,857,662 |
| Accumulated effect of changes in accounting policies and adjustments from prior years | - | (8,348) | - | (11,437) | - | - | - | - | (9,178) | - | (28,963) |
| Effect of changes in accounting policies and adjustments for the year | - | - | - | (2,466) | - | - | - | - | 101 | - | (2,364) |
| Balance at December 31, 2012, adjusted | 156 | 1,113,588 | (17,481) | 1,570,364 | 9,074 | 71 | 820 | 62,380 | 82,740 | 4,622 | 2,826,335 |
| Effect of changes in accounting policies and adjustments for the year | | (502) | | (7,240) | | | | | (1,038) | | (8,780) |
| Asset revaluation for the year | - | 49,743 | - | - | - | - | - | - | - | - | 49,743 |
| Appropriation to legal reserve | - | - | - | - | 220 | - | - | - | (220) | - | - |
| Prior period adjustments | - | 585 | - | (6,878) | - | - | - | - | - | - | (6,293) |
| Effect of appropriation to and realization of forest development | - | - | - | - | - | - | 86 | - | - | - | 86 |
| Profit before income tax and minority interest | - | - | - | 41,965 | - | - | - | - | (8,164) | - | 33,801 |
| Realization of asset revaluation reserve | - | (64,599) | - | 64,599 | - | - | - | - | - | - | - |
| Realization of asset revaluation reserve in subsidiaries | - | (7,914) | - | - | - | - | - | - | 7,914 | - | - |
| Result of valuation of financial instruments: | | | | | | | | | | | |
| *Derivative financial instruments* | - | - | 7,423 | - | - | - | - | - | - | - | 7,423 |
| *Investments* | - | - | (886) | - | - | - | - | - | - | - | (886) |
| Retirement of assets for the year | - | (6,856) | - | - | - | - | - | - | 1,277 | - | (5,579) |
| Appropriation of minority interest | - | (2) | - | - | (3) | - | - | - | (165) | 170 | - |
| Balance at December 31, 2013, adjusted | ¢ 156 | 1,084,043 | (10,944) | 1,662,810 | 9,291 | 71 | 906 | 62,380 | 82,344 | 4,792 | 2,895,849 |
| Balance at December 31, 2013, previously reported | ¢ 156 | 1,092,893 | (10,944) | 1,683,952 | 9,291 | 71 | 906 | 62,380 | 92,459 | 4,792 | 2,935,956 |
| Accumulated effect of changes in accounting policies and adjustments from prior years | - | (8,348) | - | (13,902) | - | - | - | - | (9,077) | - | (31,326) |
| Effect of changes in accounting policies and adjustments for the year | - | (502) | - | (7,240) | - | - | - | - | (1,038) | - | (8,780) |
| Balance at December 31, 2013, adjusted | 156 | 1,084,043 | (10,944) | 1,662,810 | 9,291 | 71 | 906 | 62,380 | 82,344 | 4,792 | 2,895,849 |
| Capital contributions | - | - | - | - | - | - | - | - | - | - | - |
| Asset revaluation for the year | - | 191,225 | - | - | - | - | - | - | - | - | 191,225 |
| Effect of elimination of Government services from prior years | - | - | - | 3,953 | - | - | - | - | - | - | 3,953 |
| Prior period adjustments | - | 188 | - | (3,106) | - | - | - | - | 1,489 | - | (1,429) |
| Changes in severance benefits | - | - | - | - | - | - | - | - | (1,503) | - | (1,503) |
| Effect of appropriation to and realization of forest development | - | - | - | - | - | - | 83 | - | - | - | 83 |
| Net loss before income tax and minority interest | - | - | - | (63,117) | - | - | - | - | (20,166) | - | (83,283) |
| Realization of asset revaluation reserve | - | (70,233) | - | 62,235 | - | - | - | - | 7,998 | - | - |
| Result of valuation of financial instruments: | | | | | | | | | | | |
| *Derivative financial instruments* | - | - | 5,007 | - | - | - | - | - | - | - | 5,007 |
| *Investments* | - | - | (619) | - | - | - | - | - | - | - | (619) |
| Retirement of assets for the year | - | (3,552) | - | - | - | - | - | - | 429 | - | (3,123) |
| Appropriation of minority interest | - | (191) | - | - | - | - | - | - | (75) | 266 | - |
| Balances at December 31, 2014 | ¢ 156 | 1,201,480 | (6,556) | 1,662,774 | 9,291 | 71 | 989 | 62,380 | 70,517 | 5,058 | 3,006,160 |

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

Claudio A. Ditel Rojas
Corporate Chief Financial Officer

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 Statements of Cash Flows

For the years ended December 31, 2014 and 2013
(In millions of colones)

| | Note | | 2014 | 2013 *(Restated)* * |
|---|---|---|---|---|
| Sources (uses) of cash: | | | | |
| Operating activities: | | | | |
| (Loss), profit, net | | ¢ | (83,261) | 31,286 |
| Items not requiring (providing) cash: | | | | |
| Depreciation | | | 309,138 | 292,576 |
| Legal provisions | | | 16,017 | 15,094 |
| Statutory Christmas bonus | | | 19,475 | 17,896 |
| Back-to-school bonus | | | 18,559 | 18,433 |
| Accrued vacation | | | 21,171 | 16,506 |
| Provision for contingent liabilities | | | 3,854 | 1,038 |
| Allowance for doubtful accounts | | | 4,954 | 6,739 |
| Allowance for valuation of inventory | | | 2,649 | 7,394 |
| Expense from retirement of assets | | | 4,502 | 5,272 |
| Absorption of amortizable and intangible items | | | 13,278 | 11,454 |
| Foreign exchange differences | | | 106,231 | (31,594) |
| Valuation of financial instruments | | | 3,412 | 5,484 |
| | | | 523,240 | 366,293 |
| Changes in: | | | | |
| Notes and accounts receivable | | | (22,043) | (10,516) |
| Operating inventory | | | (24,118) | 2,871 |
| Other assets | | | 35,329 | (89,027) |
| Accounts payable | | | (78,866) | (21,371) |
| Security deposits | | | 560 | 164 |
| Other liabilities | | | (63,741) | (78,388) |
| Cash from operating activities | | | 287,100 | 201,312 |
| Investing activities: | | | | |
| Increase in long-term investments | | | (6,175) | (11,101) |
| Additions to property, machinery and equipment | | | (217,247) | (432,246) |
| Increase in other assets | | | (18,934) | (23,500) |
| Increase in temporary investments | | | (7,301) | (23,331) |
| Net cash used in investing activities | | | (249,657) | (490,178) |
| Financing activities: | | | | |
| Increase in securities payable | | | 28,606 | 260,737 |
| Amortization of securities payable | | | (30,786) | (34,155) |
| Increase in loans payable | | | 321,031 | 428,934 |
| Amortization of loans payable | | | (309,321) | (389,137) |
| Decrease in obligations derived from credit | | | (108) | (4,004) |
| Net cash from financing activities | | | 9,422 | 262,375 |
| Net increase (decrease) in cash and cash equivalents | | | 46,865 | (26,491) |
| Cash and cash equivalents at beginning of the year | | | 86,278 | 112,769 |
| Cash and cash equivalents at end of the year | 7 | ¢ | 133,143 | 86,278 |

* See note 25.

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

Claudio A. Dittel Rojas
Corporate Chief Financial Officer

Jesús Orozco Delgado
Head of Corporate Finance

Lizbeth Hernández Castillo
Accounting Process Coordinator

**Note 1. Reporting entity**

Instituto Costarricense de Electricidad [Costa Rican Power and Telephone Company] and subsidiaries ("ICE Group") is an autonomous Costa Rican entity organized under Executive Order No. 449 of April 8, 1949 and Law No. 3226 of October 28, 1963. The address of its registered office is Sabana Norte, Distrito Mata Redonda, San José, Costa Rica.

Its primary activity is the development of electric power-producing sources and 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 holds a concession to develop and promote telecom services in Costa Rica and, until 2010, had the exclusive right to operate and provide mobile telecom services in the country. ICE Group offers a wide range of integrated telecom services, including fixed and mobile telecom and data transmission services (broadband access and value-added services).

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

The majority of the aforementioned activities have been funded with resources from bank lenders, as well as through the issue and placement of debt securities (bonds) in the local and international market, and through the Costa Rican National Stock Exchange.

ICE Group is a group of State-owned companies comprised of Instituto Costarricense de Electricidad [Costa Rican Power and Telephone Company] (ICE, parent company and ultimate controlling entity) and the following subsidiaries: Compañía Nacional de Fuerza y Luz, S.A. (CNFL), Radiográfica Costarricense, S.A. (RACSA), Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA), and Cable Visión de Costa Rica, S.A. (CVCRSA). The main activities of ICE Group are described in note 39 "ICE Group's operating segments".

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

Compañía Nacional de Fuerza y Luz, S.A. (CNFL) is a corporation organized through Law No. 21 "Electricity Agreement" of April 8, 1941, amended by Law No. 4977 of May 19, 1972 and in force until August 8, 2008. Accordingly, CNFL is subject to the regulations established by CGR, Articles 57 and 94 of Law No. 8131 "Public Administration and Budgets", ARESEP, and the framework of the General Internal Control Law and the Law against Corruption and Illicit Enrichment, among others. CNFL's main objective is the provision of electricity services in the local market.

- *Radiográfica Costarricense, S.A.*

Radiográfica Costarricense, S.A. (RACSA) is a corporation funded with both public and private capital that was organized on July 27, 1964 under the laws of the Republic of Costa Rica. It is owned by ICE and by Compañía Radiográfica Internacional de Costa Rica, S.A. (50% ownership interest). It was created through Law No. 3293 of June 18, 1964. It is regulated by the provisions of Executive Orders No. 7927-H and No. 14666-H of January 12, 1978 and May 9, 1983, respectively, of the Civil Code and the Code of Commerce.

RACSA's main objectives are the development of telecom services in Costa Rica, national connectivity and the internet, international connectivity for data and video transmission, information services, data center, and others.

- *Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA)*

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

- *Cable Visión de Costa Rica, S.A. (CVCRSA)*

Cable Visión de Costa Rica, S.A. (CVCRSA) is a corporation domiciled in Moravia, San José, Republic of Costa Rica and is wholly-owned (100% ownership interest) by ICE since December 5, 2013. CVCRSA was organized on January 19, 2001 and its main activity is providing cable television services; subsequently, the subsidiary added internet and digital signal services to the activities offered. With the acquisition of this entity, ICE will be able to provide Triple Play services.

Composition of capital

According to article 16 of the Law Organizing the Entity, ICE's capital is comprised of the following:

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

## Note 2. Basis of accounting

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the accounting principles included in ICE's Accounting Policy Manual (version 5) accepted by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica–the Lead Agency of the National Accounting Subsystem. ICE's Accounting Policy Manual includes the accounting policies applicable to booking transactions. Such policies were formally prepared and issued using "accounting criteria" with the stewardship and binding criteria of the Budget Accounting Division, the approval of General Corporate Financial Management, and acceptance of the National Accounting Department 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, as well as supplemental application of International Financial Reporting Standards (IFRSs) under the following conditions:

- Use of an International Financial Reporting Standard is the exception rather than the rule, i.e. it is not normal practice.
- If and only if supplemental application of the standard is expressly provided for in ICE's Accounting Policy Manual, i.e. the standard may only be applied if the manual expressly identifies the applicable IFRS.

Pursuant to regulations issued by the National Accounting Office of the Ministry of Finance and laws in effect, ICE may use the Accounting Principles Applicable to the Costa Rican Public Sector, set forth in Executive Order No. 34460-H of February 14, 2008, or the regulatory framework it has been applying thus far, until ICE transitions to IFRS on December 31, 2013. However, through Decree No. 38069-H published on December 20, 2013, the National Accounting Office of the Ministry of Finance extended the term for transitioning to IFRSs to the accounting period beginning on January 1, 2016. Accordingly, the transition to IFRSs will take place in 2015.

Additionally, article 8, Transition Provision III of Executive Order No. 35616-H issued by the National Accounting Office and published in Official Gazette No. 234 of December 2, 2009, reads as follows:

*"Until International Financial Reporting Standards are definitively implemented, each of the Public Companies included in the scope of this Executive Order and governed by the National Accounting Office shall continue to apply the Accounting Principles Applicable to the Costa Rican Public Sector, as set forth in Executive Order No. 34460-H of February 14, 2008, or the regulatory framework being applied thus far."*

Under ICE Group's accounting regulations, common practice is for supplemental application to be expressly established, in detail, in the standard, indicating the hierarchy of applicable accounting standards that should be followed in the event that certain matters are not covered by ICE's Accounting Policy Manual.

Management of ICE Group authorized the issue of the consolidated financial statements and notes thereto on April 28, 2015.

(b) Basis of measurement

Transactions are initially booked on the historical cost basis according to Executive Order No. 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 (version 5).

(c) Functional and presentation currency

The accounting records of ICE Group, its 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 conformity with ICE's Accounting Policy Manual (version 5) approved by the National Accounting Department of the Ministry of Finance of the Republic of Costa Rica requires management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. The changes derived from new information or events should be applied to profit or loss of the period in which the estimate is reviewed and in any future period affected.

*(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 38 - Institutional financial risk management.

*(ii)* Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year ending December 31, 2015 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.

(e) Changes in accounting policies

This section is updated with the purpose of broadening qualitative aspects in order to improve the interpretation of the accounting policies applicable to ICE Group's consolidated financial statements.

*(i)* *Revaluation of Other operating assets and Other operating assets under finance lease agreements*

Starting January 2014, ICE changed the accounting policy applicable to booking certain asset categories included in "Other operating assets" and "Other operating assets under finance lease agreements". ICE Group replaced the current revaluation method (historical cost plus adjustments using a price index until December 31, 2013) with the historical cost method, reversing the value of the previously booked revaluation of such assets. The change in the accounting policy did not cover the land and building categories included in those items.

Such change was performed after an analysis made by the Accounting Process Department (mainly using technical information prepared by the Engineering and Construction Business section, formerly Associated Projects and Services (PYSA)), which justifies the adjustment made to the revaluation of ICE's Other operating assets (and operating assets under finance lease agreements) with the purpose of booking the assets' carrying amount as expenses. The analysis also considered aspects such as:

- exposure of these assets to technological obsolescence;
- natural deterioration due to the development of the activities for which these assets were designed or acquired; therefore, they do not generate goodwill over time, but decrease their value; and
- opening of markets, resulting in a greater participation of suppliers and in an improvement of prices trending downward.

Accordingly, in the opinion of ICE, changing the accounting policy from the aforementioned revaluation method to historical cost offers more relevant information taking into account the new technologies and market trends and better reflects the value of those assets. Consequently, ICE reached the conclusion that using a price index for this type of assets may not appropriately reflect their carrying amount in the consolidated financial statements.

In compliance with the accounting policy in force, the effect of the adjustment resulting from the aforementioned change in accounting policies in the 2014 period must be applied retrospectively to the consolidated financial statements. Also, the accounts related to such adjustment in the consolidated balance sheet and consolidated statement of profit or loss must be reversed.

These changes in accounting policies were applied retrospectively and had a significant impact on the consolidated financial statements as of December 31, 2013 and 2012 (see note 25).

*(ii)* *Recognition as current assets - prepaid expenses corresponding to the mismatch of rates related to the cost of fuel to generate thermal power and the cost of imported electric power pursuant to a ruling approved by ARESEP*

Starting 2014, ICE Group changed its accounting policy related to the recognition as assets of the excess of costs incurred by ICE over adjusted costs (difference between estimated and actual expenses) of fuel used for thermal power generation and adjusted costs of imported electric power. The purpose of such change is to ensure an adequate proportion of revenue and costs so that costs are recognized in profit or loss in the same period as ARESEP recognizes them through an adjusted rate; accordingly, the potential mismatch between the period in which such costs are incurred and the period in which revenue is earned through the adjusted rate is eliminated.

The change consists of booking costs as current assets under the “Prepaid expenses” account and amortizing such costs over the period in which future economic benefits will be received in accordance with the term established in ARESEP’s ruling for rate approval. This accounting treatment is applicable only when the following conditions are met:

- The area in charge of requests for rate adjustments at ICE Group demonstrates the rate mismatch between the period in which fuel costs and costs of imported electric power are incurred and the period in which revenue is earned through the adjusted rate.

- ARESEP’s ruling approving the rate adjustments related to such costs is received in the same accounting period in which costs for the purchase of fuel and costs of imported electric power are incurred.

The aforementioned change in accounting policies allows having grounds for and ensuring reasonableness as to the match of income and expenses in transactions related to fuel consumption and imported electric power and the related rate-adjusted revenue, approved by ARESEP in the same period in which such consumption and import took place, which is booked as income in subsequent periods. The change in accounting policies does not have a retrospective effect on prior periods.

**Note 3. <u>Significant accounting policies</u>**

The accounting policies set out below, included in ICE's Accounting Policy Manual in effect for the 2014 period (version 5), have been consistently applied to all periods presented in these consolidated financial statements and by all ICE Group entities, considering the changes in accounting policies described in note 2-e.

For practical purposes, the information in certain notes to the consolidated financial statements is presented on an individual basis for each subsidiary.

(a) <u>Basis of consolidation</u>

*(i) <u>Business combinations</u>*

ICE Group's business combinations are accounted for using the acquisition method at 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 booked as part of the value of the investment.

"Goodwill" is measured at cost based on the financial statements of the acquiree at the acquisition date and considering the following:

- The value of consideration transferred by the Group's entity (acquirer); less
- The equity (carrying amount) of the acquiree at the acquisition date after the items with higher materiality levels have been aligned in accordance with the parent company'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 and is booked under "Intangible assets" in ICE Group's consolidated financial statements. Goodwill is systematically amortized (straight-line) to expenses over the term it is expected to generate income. The amortization period is determined based on financial criteria in accordance with expectations of obtaining the expected benefits from the business.

"Goodwill" is recognized at cost less accumulated amortization.

*(In millions of colones)*

*(ii)* *Subsidiaries*

The consolidated financial statements include the accounts of ICE and its subsidiaries. The accounts are detailed below:

| Subsidiaries | Country | Ownership interest as of December 31, 2014 | 2013 |
|---|---|---|---|
| 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) (1) | Costa Rica | 100% | 100% |

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

(1) On December 5, 2013, ICE acquired all of the shares (100%) of CVCRSA, which is dedicated to providing cable television services. ICE presents consolidated financial statements starting in 2013.

*(iii)* *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss.

*(iv)* *Transactions eliminated on consolidation*

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

*(v)* *Accounting period*

ICE Group's accounting period runs from January 1 to December 31 of each year. The annual close process is performed at year-end.

*(vi)* *Recognition criteria*

Items that fulfill 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 recognized when they occur and not when cash or other cash equivalent is received or paid.

Transactions and events should be booked in the accounting records in a timely manner and in chronological order in the financial statements for the corresponding periods.

*(vii)* *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 in effect as of the immediately preceding year-end, based on the sell exchange rate set by Banco Central de Costa Rica [Central Bank of Costa Rica] (BCCR) 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 BCCR for operations with the non-banking public sector corresponding to the last business day of December.

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.

*(viii)* *Changes in accounting policies, accounting estimates, and prior period misstatements*

Changes in accounting policies should be applied to the opening balances of equity accounts, except to the extent that it is impracticable to determine either the effects of the change in each period or the cumulative effect. Impracticability must be duly determined based on reliable arguments and the corresponding supporting documentation.

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

Misstatements in prior period balances or transactions should be corrected by adjusting the opening balances of the equity accounts. For purposes of presentation of the consolidated financial statements, prior period adjustments greater than or equal to ¢3,000 are included retrospectively. Adjustments with the same justification, which total amount is greater than or equal to ¢3,000, are also included. Adjustments to correct errors that do not meet the above criteria are presented as movements for the period in the consolidated statement of changes in equity for the most recent period; consequently, their effect is not booked retrospectively in the consolidated financial statements for prior periods.

For purposes of comparability of the consolidated financial statements, changes in accounting policies and prior period corrections of misstatements will be applied retrospectively:

- Restating opening balances of the development reserve for the oldest prior accounting period.
- Restating prior period balances as if the policy had always been applied or the misstatement had never occurred, unless and to the extent that it is impracticable to determine the effects in each period or they are relatively insignificant.

Impracticability must be duly determined based on reliable arguments and the corresponding supporting documentation.

*(ix)* *Events subsequent to the reporting period*

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

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

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

- Nature of the event;
- An estimate of the economic effect or an indication of the impossibility of performing such estimate.

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

*(x)* *Cash equivalents for purposes of presentation in the consolidated statement of cash flows*

Banks:

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

Temporary investments:

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

Restricted funds:

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

(b) Property, machinery, and equipment

Operating assets and other operating assets

*(i) Recognition and measurement*

Fixed and controlled assets that are used for business operations and are not intended to be sold are recognized as "Property, machinery, and equipment" (PME).

ICE Group books tangible and intangible assets (used in the production and delivery of electricity and telecom services) that are expected to be used for more than one accounting period as operating assets.

Assets that are expected to be used in administrative and operational activities for more than one accounting period are booked as "Other operating assets".

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

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

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

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

Borrowing costs are capitalized if they are directly related to the acquisition, construction, or production of a qualifying asset. Capitalization of borrowing costs commences when the asset is in process and may continue until the asset is ready for its intended use.

Reconstruction of an asset is booked as follows:

- If the reconstruction is virtually a total reconstruction, the asset is booked as a new asset, and the previous asset is retired.
- In the case of a total reconstruction where parts of the previous asset are used, those parts increase the cost of the new asset.
- If the reconstruction is partial, retirement of the replaced part should be recognized and the reconstruction should be capitalized.

Significant spare parts and replacement equipment are capitalized and depreciated from the date that they are available for use, i.e. the assets are in the location and condition necessary for them to operate in the manner intended by ICE Group.

Partial or total retirement of operating assets and other operating assets should decrease the balance of cost and revalued cost accounts, as well as their respective accumulated depreciation.

When replacing a component of an operating asset, that component should be derecognized and then recognized in profit or loss. If the component has service potential, it should be warehoused or transferred to the productive asset with which it will be used.

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

*(ii)* *Depreciation*

Operating assets and other operating assets, except land, are depreciated by the straight-line method when they are brought to the location and condition necessary for operation, based on the estimated useful life of the respective assets. However, other depreciation methods can be established that reliably reflect the expected pattern of consumption of the future economic benefits embodied in the operating assets.

The revalued amount is depreciated over the remaining useful life of the respective assets by the straight-line method starting on the date booked.

The technical areas defined by the segments and subsidiaries establish and review the useful lives and residual values for each class of asset and their significant components.

Additions, improvements, or reconstructions should be valued by the corresponding technical areas of ICE Group to determine whether they increase the useful life of the operating asset and other operating assets with the purpose of revising the depreciation calculation.

The systematic allocation of the depreciable amount of the cost of operating assets and other operating assets is booked by ICE Group as “Accumulated depreciation of operating assets” and “Accumulated depreciation of other operating assets”.

The depreciable amount of operating assets and other operating assets is comprised of the acquisition or construction cost plus any incidental costs, less the residual value established for each class of asset, where required.

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

Each component of the assets with a cost that is significant in relation to the total cost of the asset must be recognized and depreciated separately, based on its nature.

Significant spare parts and replacement equipment are depreciated over the same useful life as the component to which they are related.

*(iii)* *Revaluation of assets*

In accordance with the Accounting Principles Applicable to the Costa Rican Public Sector, the balances of operating assets, other operating assets, and other operating assets under finance lease agreements (land and buildings in the case of the last two) and their respective accumulated depreciation as of December 31 of the prior year are revalued on an annual basis using indexes established by ICE Group for each class of asset to maintain their fair value[1](except for the assets “not subject to revaluation” included in note 4), which could either increase or decrease their carrying amount. If the variations in the values resulting from those revaluations are not significant, frequent revaluations will be unnecessary and are not booked, or they are made every three or five years. Revaluations are performed starting in the second accounting period based on the booking date using independent accounts for revalued cost and revalued accumulated depreciation.

---

[1]Restated value, updated using price indexes.

In the event that, based on expert criteria, asset revaluations are considered unnecessary but were applied in compliance with prior policies, the corresponding technical areas must perform an analysis to determine whether the revalued amount of the assets should remain unchanged or be adjusted. If the revalued amount is adjusted, such adjustment must be quantified and applied retrospectively for purposes of presentation of the consolidated financial statements and to ensure comparability of figures (see note 2-e).

The aforementioned revaluation rate is determined using a formula based on the U.S. external price index (Bureau of Labor Statistics – Employment Cost Trends) and the Costa Rican consumer price index, depending on whether the purchases are made locally or abroad, and on the prior and current year foreign exchange rates.

The credit resulting from such revaluations is booked in the equity section as "Asset revaluation reserve". When the carrying amount is reduced as a result of a revaluation, such decrease will be charged directly to net equity against the asset revaluation reserve previously recognized in relation to the same asset, insofar as such decrease does not exceed the balance of the previously recognized asset revaluation reserve.

Other operating assets, except for land, buildings, and civil works, are not revalued and, therefore, are booked at cost.

If a component of other operating assets is revalued, all other components of a similar nature in use in ICE Group's operations should also be revalued.

Other operating assets under finance leases

Other operating assets under finance leases are classified as finance leases in accordance with the provisions of the contract for both financial and tax purposes.

Assets under a lease agreement that are used in administrative or operating activities and that are expected to be used for more than one accounting period are booked as "Other operating assets under finance leases".

At the beginning of the lease term, the contractual amount of the leased asset is booked in both the asset and liability sections of the consolidated balance sheet.

Each lease installment is divided into two parts: amortization of the asset and the finance expense stipulated in the agreement based on a constant interest rate over the term of the lease.

Other operating assets under finance lease agreements are depreciated by the straight-line method from the date they are brought to the location and condition necessary for them to be capable of operating, based on their estimated useful life. However, other depreciation methods may be used that reliably reflect the expected consumption of the future economic benefits embodied in other operating assets under finance leases.

In accordance with the Accounting Principles Applicable to the Costa Rican Public Sector, the balances of other operating assets under finance lease agreements and their respective accumulated depreciation from the class of assets corresponding to land and buildings as of December 31 of the prior year are revalued each year using indexes established by ICE Group to maintain their fair value[2], which could either increase or decrease their carrying amount. If the variations in the values resulting from those revaluations are not significant, frequent revaluations will be unnecessary and are not booked, or they are made every three or five years.

Other operating assets under finance lease agreements, except for land, buildings, and civil works, are not revalued and, therefore, are booked at cost.

If a component of other operating assets under finance lease agreements is revalued, all other components of a similar nature in use in the entity's operations should also be revalued.

Retirements of other operating assets under finance lease agreements should reduce the cost accounts as well as revalued cost accounts and their respective accumulated depreciation.

Construction work in progress

Depending on their complexity, amount, and other factors, assets under construction that are expected to be used in the production and provision of electricity and telecom services are booked as "Construction work in progress" or "Other construction work in progress".

Assets under construction that are expected to be incorporated into other operating assets and used in administrative activities or to support service delivery are booked as "Other construction work in progress."

[2]Restated value, updated using price indexes.

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

Construction work in progress must be identified using a work number assigned in the corresponding Work Authorization document, which is used to accrue costs incurred.

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

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

Interest and commission expenses derived from loans related to the acquisition and construction of assets should be capitalized to the cost of the assets, solely during construction of the project.

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

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

Borrowing costs are no longer capitalized and are expensed to the period when construction work is interrupted, if the interruption lasts for at least 3 months, or when the asset under construction is placed in service.

Costs incurred by the support and technical support areas of the entity's segments that are directly related to construction and can be reliably measured, but are not directly allocated to the works, will be accrued as "Production management costs for construction work in progress".

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

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

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

- These costs are considered to be necessary for the development of ICE Group's projects.
- These costs are a requirement that ICE Group must comply with in order to obtain social and environmental feasibility permits for its projects. If such requirement is not met, project development start-up may be affected.
- These costs are an integral part of the Environmental Management Plan; accordingly, they must be duly planned and included therein as well as controlled as part of ICE Group's "Baseline".
- These costs can be reliably identified and measured.

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

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

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

Materials in transit for investment

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

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

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

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

Inventory for investment

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

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

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

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

Impairment of assets

ICE Group's asset impairment policy is solely directed at recognition of any physical impairment of its assets due to force majeure and is booked in profit or loss.

(c) Investments and long-term accounts receivable

Long-term investments

The cost of financial instruments acquired in order to obtain an interest or control in related parties, so as to develop energy and telecom activities, is booked as "Long-term investments".

Investments in shares of non-subsidiaries and associates are booked at acquisition cost, irrespective of the ownership interest.

Dividends declared by subsidiaries are recognized in profit or loss in ICE Group's financial statements once the right to receive such dividends is established.

Long-term investments are eliminated when the investments are sold.

Long-term financial investments

Financial instruments (long-term certificates of deposit, bonds, foreign debt bonds, among others) supported by an underlying document and with terms of more than one accounting period are booked as "Long-term financial investments".

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

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

Long-term notes receivable

Credits granted to third parties supported by an underlying document and with terms of more than one accounting period are booked as "Long-term notes receivable".

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

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

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

(d) Current assets

Banks

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

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

Temporary investments

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

Held-to-maturity temporary investments are carried at face value, while available-for-sale temporary investments are carried at fair value. The corresponding balances are presented in the balance sheet.

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

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

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

<u>Valuation of temporary investments</u>

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

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

Investment valuations are booked at least once a month. Accordingly, there is a sale indicator and reasonable values are established. The effect of exchange rate variations on the value of temporary investments expressed in foreign currency is booked in profit or loss.

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

<u>Restricted funds</u>

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

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

Receivables

The right to demand payment from customers for electricity and telecom services with terms of less than one accounting period is booked as "Receivables for services rendered".

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

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

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

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

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

Allowance for doubtful accounts

The amount determined on a monthly basis by applying factors or percentages to monthly billings for telecom services provided is booked as "Allowance for doubtful accounts". In the Electricity segment, such factors are applied to the net of accounts receivable debits and credits for electricity services. In the case of other non-trade debts, a fixed amount is applied so as to cover the potential uncollectibility of those charges.

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

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

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

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

Government accounts

Rights or obligations arising from the provision of services to the 911 emergency system are booked as "Government receivables and payables." The amount booked corresponds to the amount payable shown on the document underlying the transaction.

Notes receivable

Loans extended to third parties supported by an underlying document with a term of one year or less are booked as "Notes receivable".

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

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

Operating inventory

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

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

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

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

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

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

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

Materials in transit for operations

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

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

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

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

Prepaid expenses

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

"Prepaid expenses" also include mobile terminals that are free of charge or sold for a discounted price with post-paid mobile telephony plans. Such amounts are expensed based on the term of the post-paid plan or package, matching the costs with the plan's income.

The total cost of fuel consumption to generate thermal power is booked as "Prepaid expenses" when the rate adjustments related to such cost are applied in the same accounting period in which they are requested and are a result of mismatches in connection with the Variable Fuel Cost (CVC) Methodology. Such cost is amortized to the consolidated statement of profit or loss on a straight-line basis over the term established by the regulatory authority to recover such costs through rate adjustments. Such term may vary in accordance with subsequent communications from the regulatory authority.

The costs of imported electric power are booked as "Prepaid expenses" when the rate adjustments are applied in the same accounting period in which the expense was made. The related recognition should be deferred in the term established by the regulatory authority. Such cost is amortized to the consolidated statement of profit or loss over the term established by the regulatory authority to recover such costs through rate adjustments. Such term may vary in accordance with subsequent communications from the regulatory authority.

"Prepaid expenses" are booked at acquisition cost.

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

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

(e) Other assets

Service agreements

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

Service agreements are booked at execution cost, plus any other costs related to development, provided they can be identified and reliably measured. Costs accrued and incurred during the project design and execution phase are included in the value of service agreements, if so stipulated in the agreement.

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

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

Whenever it is likely that the total costs of an agreement at the final settlement date will exceed the amount stipulated, the resulting difference is charged to expense in the period in which the final settlement is performed; except for items that are expected to generate future economic benefits and, therefore, qualify for recognition as an asset. Those items are eliminated and transferred to the amortizable assets account and are absorbed during the term of the agreement, provided the benefit is technically and financially demonstrated by the corresponding area.

Project design and execution

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

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

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

- These costs are considered to be necessary for the development of ICE Group's projects.
- These costs are a requirement that ICE Group must comply with in order to obtain social and environmental feasibility permits for its projects. If such requirement is not met, project development start-up may be affected.
- These costs are an integral part of the Environmental Management Plan; accordingly, they must be duly planned and included therein as well as controlled as part of ICE Group's "Baseline".
- These costs can be reliably identified and measured.

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

Technical service centers-investment

Costs incurred by specialized technical units for the provision of services to third parties are booked as "Technical service centers-investment".

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

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

Investment in reforestation agreements

Amounts paid for acquisition of rights as co-owners of reforestation plantations are booked as investments in reforestation agreements by RACSA. All disbursements made and associated with forest development are capitalized as part of the investment. The value of this investment is amortized as development revenues are realized. Execution of these agreements entitles RACSA to a proportional share of net revenues arising from future development.

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

Non-operating assets

*(i)* *Recognition and measurement*

The following items are booked as "Non-operating assets":

- assets used in activities other than ICE Group's normal operations;
- assets designated for the future provision of electricity and telecom services and that are expected to be used for more than one accounting period;
- assets transferred or acquired for use by third parties;
- operating assets that are idle during a significant term (at least 6 months) and which value is equal to or greater than ¢1,000.

Non-operating assets are booked at acquisition or construction cost, plus any other directly attributable costs necessary to bring the asset to the location and condition necessary for operation.

Additions, improvements or retrofits, reconstruction and price adjustments (rights granted to contractors by the Government Procurement Act to maintain the economic balance of contracts) are treated as costs subsequent to the acquisition or construction of an asset and are therefore capitalizable, provided they are not considered recurring costs for maintenance.

Price adjustments are capitalizable provided they are directly related to the corresponding item. Price adjustments may occur during the construction process or when the asset is in use or is classified as a non-operating asset. Price adjustments are depreciated over the remaining useful life of the corresponding operating or non-operating asset.

Reconstruction of a non-operating asset is booked as follows:

- If reconstruction is virtually a total reconstruction, the asset is booked as a new asset, and the previous asset is retired.
- In the case of a total reconstruction where parts of the previous asset are used, those parts increase the cost of the new asset.
- If the reconstruction is partial, retirement of the replaced part should be recognized and the reconstruction should be capitalized.

*(ii)* *Depreciation*

Non-operating assets (except for land) are depreciated by the straight-line method when they are brought to the location and condition necessary for operation, based on the estimated useful lives of the respective assets. However, other depreciation methods can be established that reliably reflect the expected pattern of consumption of the future economic benefits embodied in the non-operating assets.

Revaluation is depreciated over the remaining useful life of the respective assets by the straight-line method starting on the date booked.

The technical areas defined by ICE's segments and other ICE Group's subsidiaries establish the useful lives and residual values for each class of asset.

Additions, improvements, or reconstruction should be valued by the corresponding technical areas of ICE Group to determine whether they increase the useful life of the non-operating assets with the purpose of revising the depreciation calculation.

The systematic allocation of the depreciable amount of the cost of other non-operating assets owned by ICE Group is booked as "Accumulated depreciation of non-operating assets".

The depreciable amount of non-operating assets is comprised of the acquisition or construction cost plus any incidental costs, less the residual value established for each class of asset, where required.

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

*(iii)* <u>*Revaluation of assets*</u>

In accordance with the Accounting Principles Applicable to the Costa Rican Public Sector, the balances of non-operating assets and their respective accumulated depreciation as of December 31 of the prior year are revalued on an annual basis using indexes established by ICE Group for each class of asset to maintain their fair value[3] (except for the assets included in note 4 as "not subject to revaluation" and "art work and collector's items"), which could either increase or decrease their carrying amount. If the variations in the values resulting from those revaluations are not significant, frequent revaluations will be unnecessary and are not booked, or they are made every three or five years. Revaluations are performed starting in the second accounting period based on the booking date using the independent accounts for restated cost and restated accumulated depreciation.

In the event that, based on expert criteria, asset revaluations are considered unnecessary but were applied in compliance with prior policies, the corresponding technical areas must perform an analysis to determine whether the revalued amount of the assets should remain unchanged or be adjusted. If the revalued amount is adjusted, such adjustment must be quantified and applied retrospectively for purposes of presentation of the consolidated financial statements and to ensure comparability of figures (see note 4).

The aforementioned revaluation rate is determined using a formula based on the U.S. external price index (Bureau of Labor Statistics – Employment Cost Trends) and the Costa Rican consumer price index, depending on whether the purchases are made locally or abroad, and on the prior and current year exchange rates.

The credit resulting from such revaluations is booked under "Asset revaluation reserve". When the carrying amount is reduced as a result of a revaluation, such decrease will be charged directly to net equity against the asset revaluation reserve previously recognized in relation to the same asset, insofar as such decrease does not exceed the balance of the previously recognized asset revaluation reserve.

Non-operating assets with a useful life of five years or less and exposed to technological obsolescence are not revalued and, therefore, are booked at cost.

---

[3]Restated value, updated using price indexes.

If a component of non-operating assets is revalued, all other components of a similar nature in use in ICE Group's operations should also be revalued.

Retirements of non-operating assets should reduce the cost accounts as well as revalued cost accounts and their respective accumulated depreciation.

Intangible assets

*(i) Recognition and measurement*

Assets that do not have a physical form and are expected to be used for more than one accounting period for administrative activities or activities other than normal operations, rights of way and easements on land currently in use or for future use by ICE Group to render services, and goodwill arising from the acquisition of subsidiaries that is expected to be used for more than one accounting period or indefinitely are booked as "Intangible assets".

Pursuant to this policy, intangible assets are as follows:

- Licenses and software;
- Systems and applications;
- Rights of way or easements on land; and
- Goodwill (excess of the acquisition cost over the carrying amount (net equity) of the acquiree).

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

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

- Research phase and
- Development phase

Intangible assets resulting from the research phase are not recognized. Disbursements for research are expensed in the period incurred.

Intangible assets resulting from the development phase are recognized as such if the following criteria are met:

- It is technically possible to complete production of the intangible asset such that it becomes available for use or sale.
- Its intent to complete the intangible asset in question for use or sale.
- Its ability to use or sell the intangible asset.
- The way in which the intangible asset will generate future economic benefits. Among other, ICE Group should demonstrate the existence of a market for the production generated by the intangible asset or for the asset itself, or, if the asset will be used internally, the asset's usefulness for ICE Group.
- Availability of sufficient technical, financial, or other resources to complete the development of and use of or sell the intangible asset.
- Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

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

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

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

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

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

"Goodwill" is recognized at cost less accumulated amortization. Goodwill (excess of the acquisition cost over the carrying amount (net equity) of the acquiree) (see note 16 (2)).

*(ii)* <u>*Amortization*</u>

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

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

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

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

If right of way or easement agreements are subscribed for a defined period, such rights must be amortized over the term of the agreements in which they generate benefits to ICE Group. In the event that such agreements are renewable, that fact must be taken into account when determining the useful life of the right of way or easement.

Rights of way or easements on land are not revalued.

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

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

In the case of CNFL, rights of way or easements are amortized over agreed periods of between 2 and 15 years; if agreed to perpetuity, these rights are not amortized. Software and licenses acquired are amortized straight-line over a period of between 1 and 3 years.

"Goodwill" is systematically amortized (straight-line) to expenses over the term in which it is expected to generate income. The amortization period is determined based on financial criteria in accordance with expectations for obtaining the expected benefits from the business.

Amortizable items

Expenditures to issue securities (bonds), investments, and any other obligations that provide economic benefits are booked as "Amortizable items". Accordingly, they must be deferred because they affect more than one accounting period.

Amortizable items are booked at historical cost provided they can be identified and reliably measured.

Expenditures or transactions properly allocated to amortizable items are considered to be qualifying expenditures or transactions if they meet the following criteria:

- They fulfill the condition for recognition as assets, since it is probable that they will produce future economic benefits.
- Expenses incurred from their absorption are correlated with income earned during the period.

The systematic allocation of the absorbable amount of the cost of such assets is booked as "Absorption of amortizable items" during the established term.

Amortizable items are absorbed by the straight-line method over the period of time in which economic benefits are expected to be obtained from such items, except those that given their financial nature warrant application of the effective interest method, such as financial assets.

Upon full absorption of amortizable items, the cost accounts and their respective absorption should be eliminated.

Securities received as guaranty deposits

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

Securities received as guaranty deposits are booked at face value.

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

Valuation of derivative financial instruments

The positive value of discounted cash flows of financial instruments is booked as “Valuation of derivative financial instruments” in the asset section of the balance sheet. The negative value of the discounted cash flows of financial instruments is booked as a liability. The value changes in response to changes in the underlying asset.

For qualifying hedging instruments, the effects of changes in their valuation are classified in equity or profit or loss for the period based on an evaluation of their effectiveness.

The effect of valuation of derivative financial instruments that are not classified as hedges is booked as part of finance income in profit or loss.

Guarantee and Savings Fund (restricted fund)

ICE’s rights reflected in the net amount transferred to the Guarantee and Savings Fund as contributions and to the Supplemental Pension System, plus returns derived therefrom, less amounts transferred to employees and fund management losses, are booked as “Guarantee and Savings Fund (restricted fund)”.

“Guarantee and Savings Fund (restricted fund)” is presented in the balance sheet under “Other assets” as they become due with respect to the other items in this group.

The amounts contributed to the “Guarantee and Savings Fund (restricted fund)” are disclosed for each segment.

Transfers to ICE’s Guarantee and Savings Fund

Amounts transferred to ICE’s Guarantee and Savings Fund are booked as “Transfers to ICE’s Guarantee and Savings Fund”. This fund was created to pay severance benefits to ICE’s employees. Fund contributions are equivalent to 5% of salaries earned during the year.

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

(f) Long-term liabilities

Securities payable

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

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

A partial or full decrease in debt securities (bonds) is recognized when the entity amortizes or settles any amount owed.

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

Long-term loans payable

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

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

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

"Long-term notes payable" are recognized as the financial entity or provider transfers the cash flows or assets to ICE Group or the supplier, or as interest is capitalized over the loan disbursement period, where appropriate.

A partial or full decrease in "Long-term loans payable" is recognized when the entity amortizes or settles any amount owed or when the obligation expires.

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

ICE Group reclassifies as "Short-term loans payable" long-term debt resulting from noncompliance with the provisions set forth in the loan agreements at the end of the reporting period or earlier, as long as noncompliance is declared by the creditor. The creditor should expressly indicate to ICE Group that liabilities are payable in the short term, regardless of the status of negotiations of waivers or amendments with the creditor.

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

- Loans with which ICE failed to comply during the period and their carrying amount.
- Whether noncompliance is cured or the conditions of loans payable are renegotiated prior to the date on which the consolidated financial statements are authorized for issue.
- Negotiated conditions in the case of amendments or waivers for each loan.

Obligations derived from credit

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

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

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

Security deposits

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

Security deposits are recognized at face value.

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

Prepaid income

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

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

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

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

(g) Short-term liabilities

Short-term securities payable

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

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

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

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

Loans payable - Working capital

Obligations with financing institutions or organizations for terms equal to or less than one year are booked under "Loans payable - Working capital".

"Loans payable - Working capital" are booked at the face value of the underlying contracts.

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

Short-term loans payable

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

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

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

ICE Group reclassifies as “Short-term loans payable” long-term debt resulting from noncompliance with the provisions set forth in the loan agreements at the end of the reporting period or earlier, as long as noncompliance is declared by the creditor. The creditor should expressly indicate to ICE Group that liabilities are payable in a short term, regardless of the status of negotiations of waivers or amendments with the creditor.

Accounts payable

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

Accounts payable are valued based on the total amount due under contractual obligations.

Accounts payable are recognized as follows:

- Import purchase orders – the liability is recognized when the purchase order is issued;
- Local purchases – the liability is recognized upon acceptance of the CRM.

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

Accrued finance expenses payable

"Accrued finance expenses payable" include borrowing costs (interest and commissions) accrued but not paid resulting from obligations undertaken with financing institutions or agencies.

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

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

Prepaid income

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

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

Prepaid income decreases as the services are rendered or the systematic allocation of government grants is realized in income based on the useful life of the related principal asset.

Deposits from private individuals or companies

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

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

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

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

The amount calculated on employee salaries for payment of the statutory Christmas bonus, vacation days, and the back-to-school bonus is recognized as “Accrued expenses for employer obligations”.

Accrued expenses for employer obligations are recognized at historical cost.

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

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

*(ii)* *<u>Vacation</u>*

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

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

Employees of CNFL are entitled to paid vacation days each year. The number of vacation days is determined based on years of service with the subsidiary, as follows:

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

The vacation accrual for RACSA is as follows:

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

CVCRSA books a monthly provision of 4.17% of pre-tax compensation to cover future disbursements related therewith.

*(iii)* *Back-to-school bonus*

ICE and CNFL follow the policy of recording an accrual for payment of back-to-school bonuses. The bonus corresponds to a percentage calculated on the monthly monetary salary of each employee, and is paid on an accrual basis in January of each year. This accrual is equivalent to 8.19% and 13%, respectively, of pretax compensation, and is paid to all employees regardless of whether they have children or school-age children.

The back-to-school bonus constitutes an additional cost-of-living salary increase to defray the costs of any school-related expenses.

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

The subsidiaries RACSA and CVCRSA are not required to pay back-to-school bonuses; accordingly, they do not book a provision therefor.

(h) Other liabilities

Legal provisions

The amount calculated on employee salaries for statutory payments, accrued legal obligations, and occupational hazard insurance is recognized as "Legal provisions", as a result of past events, which existence must be confirmed only through the occurrence or non-occurrence of one or more uncertain future events that are not fully controlled by the entity.

"Legal provisions" are booked at historical cost.

ICE Group records a provision for severance benefits (including advance notice and allowance for termination of employment) and other benefits available to employees upon termination of employment in accordance with established regulations.

ICE's monthly provision for severance benefits corresponding to permanent and temporary employees is equivalent to 3.50% and 9%, respectively, of pretax compensation.

The provision for severance benefits for ICE's permanent employees is transferred on a monthly basis to the Guarantee and Savings Fund, where returns are generated until employment is terminated.

Project employees are hired to execute projects developed by ICE and are terminated once the work is completed.

In accordance with the Collective Bargaining Agreement subscribed by CNFL and its employees on August 30, 1995, CNFL calculates severance benefits by applying a percentage based on the employee's years of service, up to a maximum of 20 years. At each tax year-end, a financial study is completed to adjust the calculation of this provision. CNFL determines the present value of these defined benefit obligations, sensitized to prepaid severance benefits, with sufficient regularity to ensure that the amounts booked in the consolidated financial statements do not significantly differ from the amounts to be determined at the close of the reporting period. CNFL uses a valuation methodology to determine the present value of defined benefit obligations and the cost of current and past services rendered. CNFL has not changed the benefit plan; accordingly, no cost is booked for past services.

CNFL transfers a contingent liability for severance benefits to the Employee Association of CNFL (ASEFYL), equivalent to 5.33% of member employees' monthly salaries, pursuant to Law No. 6970.

RACSA pays severance benefits to employees equivalent to 20 days' salary for each year of continuous service, up to a maximum of 8 years. However, in accordance with a number of agreements of the Board of Directors, RACSA increased severance benefits and recognizes the right to an additional payment equivalent to 20 months' salary. In order to comply with such provision, an expense equivalent to 5.33% of monthly employee salaries is booked and that amount is fully transferred to the Employee Association as prepaid severance benefits. Such resources are managed by the Association for the benefit of its member employees. Upon termination of employment, employees are paid directly by the Association the portion corresponding to 5.33% of salaries; any additional amount that must be covered by RACSA in respect of the final severance benefits (calculated based on the labor rights mentioned above), is expensed for the period.

CVCRSA pays severance benefits to its employees pursuant to article 29 of the Labor Code. For such purposes, CVCRSA books a monthly provision of 5.33% of salaries. Of that amount, 3% is transferred to the Employee Association of Cable Visión (ASEVISION) for the benefit of employees and deducted from severance benefits when employees are dismissed without just cause. Any additional amount in respect of the final severance benefits pay is recognized as an expense for the period. On December 5, 2013, CVCRSA was acquired and its employees received full severance pay, which implied no additional labor obligations for ICE; accordingly, under no circumstances may ICE be considered as a "substitute employer".

Legal provisions are revised periodically to ensure coverage of any future obligations.

Provision for contingent liabilities

ICE Group books a provision for contingent liabilities in order to cover possible losses derived from current legal, arbitration, and administrative proceedings (except tax) managed by ICE Group's Legal Department. The conditions and amount of the provision are determined in accordance with the "Guidelines for Litigation Provisions", which considers the expert opinion of ICE's Legal Department and the following criteria:

- Litigation which estimate, amount, or unfavorable ruling amount to ¢500 or more must be provisioned, except for notices of deficiency issued by the Tax Authorities (including interest and penalties), which should be fully provisioned (100%) regardless of the amount. However, if according to the expert opinion of the legal counsel there is uncertainty or an outflow of funds is unlikely in respect of such tax proceedings, no provision is recorded therefor.

- A provision for contingent liabilities is established for the estimate, amount or ruling of each lawsuit, divided by the expected resolution term (in years) determined by the Legal Department. Accordingly, the portion to be accrued each year during the term of the lawsuit is provisioned until 100% of the estimated amount for each suit is reached. The lawsuits to be provisioned are determined by ICE's Legal Department, in accordance with the criteria specified below. As an exception, notices of deficiency are fully provisioned starting on the date official notification is given by the Tax Authorities, and include interest and penalties. Principal is included only if the notice of deficiency corresponds to the current period; if it corresponds to prior periods, the principal is charged against the "Development reserve".

The criteria used by ICE's Legal Department to determine whether litigation should be provisioned are as follows:

*Criterion 1:* Notices of deficiency from Tax Authorities: Formal notification is given by the Tax Administration of notices of deficiency issued to ICE Group. The notices of deficiency are provisioned (including interest and penalties). Principal is included only if it corresponds to the current period; if it corresponds to prior periods, the principal is charged against the "Development reserve". In the case of tax proceedings for which the legal counsel considers there is uncertainty or an outflow of funds is unlikely, no provision is recorded therefor.

*Criterion 2:* As of the date of judgment for the plaintiff in the first instance: Formal notification of a ruling handed down by the competent courts of first instance whereby ICE Group is found guilty. The provision is established based on court costs.

*Criterion 3:* Legal actions for which, based on question of law criteria or the opinion of ICE's Legal Department, a causal link is established between the subject of the claim and the actions of management, according to the rules governing liability.

*Criterion 4:* In legal actions where ICE Group is the defendant, when the amount cannot be estimated, and where judgment for the plaintiff was ruled in the first instance by the competent courts, ICE's Legal Department will estimate a reasonable amount to be provisioned based on the expert opinion.

Legal provisions must be revised periodically to ensure coverage of the potential obligation.

Provisions are liquidated from time to time when the obligation is extinguished, i.e. when payment is made or no legal obligation is acquired.

Valuation of derivative financial instruments

Negative cash flows from financial instruments are recognized in the liability section under "Valuation of derivative financial instruments".

The value changes in response to changes in the price of the underlying asset.

Instrument valuation will be directly linked to equity or profit or loss for the period, based on their effectiveness measurement.

Guarantee and Savings Fund (restricted fund)

ICE's obligations reflected in the net amount transferred to the Guarantee and Savings Fund and Supplemental Pension System as contributions, plus returns derived therefrom, less amounts transferred to employees and other fund management losses, are booked as "Guarantee and Savings Fund (restricted fund)".

"Guarantee and Savings Fund (restricted fund)" is presented in the balance sheet under "Other liabilities" as they become due with respect to the other items in this group.

(i) Equity

Development reserve

The "Development reserve" includes profit or loss of ICE at each accounting year-end. By law, that reserve must be earmarked for development of electricity and telecom services.

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

Asset revaluation reserve

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

This reserve is adjusted by the net amount of partially or fully retired assets during the period and for reinstatement of depreciation of the revalued assets in the development reserve, due to the effects of the changes in accounting policies and corrections of prior period errors.

Result of valuation of financial instruments

This account reflects the result of valuation of financial instruments acquired by ICE Group, including hedges in the form of financial derivatives and available-for-sale investments.

Valuations are recognized in equity based on the conditions established for each financial instrument.

Positive or negative discounted cash flows from financial instruments determined to be effective hedges are recognized as "Result of valuation of financial instruments".

Investments are booked under "Result of valuation of financial instruments" when classified as available for sale.

Valuation of hedging instruments is directly linked to liabilities or assets and depends on whether the instrument hedges or discloses the risk.

The result of valuation of financial instruments is eliminated when the instrument expires, is negotiated, or is sold.

Surplus or loss

The result of the closing of "Income" and "Expenses" nominal accounts at period end is booked under "Surplus or loss".

"Surplus or loss" is valued at the results obtained in profit or loss for the financial year.

"Surplus or loss" at the end of the period is liquidated by transferring its balance to the "Development reserve", "Asset revaluation reserve" (the portion corresponding to expense for depreciation of revalued assets), and "Profit or loss on investments" (the portion corresponding to investments in subsidiaries and other companies).

Legal reserve

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

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

Project development reserve

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

Forest development reserve

RACSA books the cost value of forestry projects plus all costs incurred for their development as a "Forest development reserve". The purpose of the reserve is to cover any potential losses associated with future utilization of investments in forestry agreements.

Restricted retained earnings

Based on agreements reached at General Shareholders' Meetings, RACSA restricts earnings as appropriate and recognizes them on the historical cost basis.

Retained earnings

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

(j) Memoranda accounts

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

Memoranda accounts are recognized at face value.

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

(k) Operating income

Income from services

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

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

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

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

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

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

Income from post-paid services arising from plans or packages or individual services (non-package services) is booked according to the date of invoice or receipt issued to the customer after the service is rendered (billing cycle).

Income from prepaid services is booked separately as income in each type and classification until services are rendered to the end customer. Traffic of fixed and mobile telephony is booked as income as calls are made. For prepaid services, the amount corresponding to traffic paid and pending consumption generates deferred income, which is booked under "Prepaid income" in the liability section of the consolidated balance sheet.

The sale of terminals individually sold or sold in plans or packages offered by ICE Group is recognized as income. Income from the sale of terminals is recognized by the amount established in the offered plans or packages when the terminal is transferred to the purchaser.

Income from services is recognized when the following criteria are met:

- Income can be measured reliably.
- It is probable that ICE Group will receive the economic benefits derived from the transaction.
- Services are rendered in the reporting period, in accordance with the billing cycle.
- The level of realization of the transaction can be measured reliably.
- Costs incurred in rendering services and costs to be incurred until the transaction is completed can be measured reliably.

Income from government services

"Income from government services" includes income generated from providing services to the 911 emergency system.

This item is booked at the agreed rate.

(l) Operating costs

Operation and maintenance costs

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

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

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

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

Operation and maintenance costs are recognized at historical cost.

Lease agreements for telecommunications, transmission, and electric power generation equipment are booked and classified as operating leases for both tax and financial reporting purposes.

Payments arising from operating leases are recognized on a straight-line basis over the term of the lease in accordance with the agreement.

Depreciation of operating assets

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

Costs arising from depreciation of operating assets are booked based on systematic application of the depreciation method agreed for each group of assets. Depreciation is provided on the straight-line method. The depreciable amount of operating assets represents the cost of acquiring or constructing the asset, plus any incidental costs, less the residual value established for each class of asset (where appropriate).

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

Supplemental services and purchases

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

Electricity purchases include the realized cost of the rate mismatch previously recognized as "Prepaid expenses" by acquiring electricity services from third parties.

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

Production management

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

Production management costs are recognized at historical cost.

Production management costs incurred by management of the Electricity segment are distributed among electricity subsegments, based on the established cost drivers.

Technical service centers-operations

Costs incurred by specialized technical operations units that provide services to other entities are recognized as "Technical service centers-operations".

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

Costs related to technical service centers-operations are allocated to customers based on the unit's costing method.

(m) Operating expenses

Administrative expenses

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

Administrative expenses are booked at historical cost.

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

Marketing expenses

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

"Marketing expenses" also include the cost of mobile terminals and other devices required to render electricity and telecom services.

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

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

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

"Marketing expenses" are booked at historical cost.

Preliminary studies

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

These expenses are booked at historical cost.

Preinvestment studies

"Preinvestment studies" include expenses incurred in the preinvestment phase of projects for which execution is under analysis. This item includes feasibility studies for projects or works to be constructed.

Prior mitigation and social compensation costs incurred in the feasibility phase of projects or works with no duly prepared and approved Environmental Management Plan that correspond to a strategic rapprochement with interest groups who may be affected in the construction phase are booked under "Preinvestment studies".

These expenses are booked at historical cost.

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". This account does not include preliminary or preinvestment studies, or transactions that, based on their nature, are not considered to be part of other items of operating expenses and costs.

Subsequent mitigation and social compensation costs that exceed the amounts established in the Environmental Management Plan and were not included in the "Baseline"[4] planned and controlled by ICE Group are booked as "Other operating expenses".

Other operating expenses are recognized at historical cost.

---

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

(n) Other income

Finance income

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

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

Income from investments in other companies

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

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

Other income

Income arising from services provided to third parties that are not part of ICE Group's normal course of business is recognized as "Other income".

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

"Other income" also includes realized government grants under which ICE Groups receives resources (cash or assets), based on the established systematic allocation for the main asset associated to the grant.

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

Foreign exchange differences

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

(o) Other expenses

Finance expenses

Expenses arising from loans, placement of securities (bonds), investments, or any other obligation used for ICE Group management purposes are recognized as "Finance expenses".

Finance expenses are booked at historical cost.

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

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

Other expenses

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

Foreign exchange differences

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

*(In millions of colones)*

**Note 4. Operating assets**

| | | As of December 31, 2014 | 2013 *(Restated)* * |
|---|---|---|---|
| ***Cost:*** | | | |
| Operating assets | ¢ | 3,536,989 | 3,132,312 |
| Operating assets under finance lease agreements | | 27,632 | 27,610 |
| Other operating assets | | 435,357 | 418,135 |
| ***Total operating assets - cost*** | | ***3,999,978*** | ***3,578,057*** |
| ***Revaluation:*** | | | |
| Operating assets | | 2,833,168 | 2,521,960 |
| Operating assets under finance lease agreements | | 4,822 | 3,106 |
| Other operating assets | | 61,250 | 56,002 |
| ***Total operating assets - revaluation*** | | ***2,899,240*** | ***2,581,068*** |
| ***Total cost - revaluation*** | | ***6,899,218*** | ***6,159,125*** |
| ***Accumulated depreciation:*** | | | |
| ***Cost:*** | | | |
| Operating assets | ¢ | 1,274,568 | 1,082,754 |
| Operating assets under finance lease agreements | | 2,780 | 2,159 |
| Other operating assets | | 283,860 | 249,540 |
| ***Total accumulated depreciation of operating assets - cost*** | | ***1,561,208*** | ***1,334,453*** |
| ***Revaluation:*** | | | |
| Operating assets | | 1,675,925 | 1,476,148 |
| Operating assets under finance lease agreements | | 321 | 148 |
| Other operating assets | | 31,574 | 28,809 |
| ***Total accumulated depreciation of operating assets - revaluation*** | | ***1,707,820*** | ***1,505,105*** |
| ***Total accumulated depreciation - cost and revaluation*** | | ***3,269,028*** | ***2,839,558*** |
| ***Operating assets, net*** | ¢ | ***3,630,190*** | ***3,319,567*** |

* See note 25.

*(In millions of colones)*

*Operating assets at cost*

Operating assets at cost are as follows:

| Operating assets - cost | | As of December 31, 2012 | Additions and capitalizations | Retirements and transfers | Adjustments and reclassifications | December 31, 2013 (*Restated*)* | Additions and capitalizations | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Plant and equipment - ICE Electricity:** | | | | | | | | | | |
| Hydraulic power generation | ¢ | 624,556 | 47,047 | (566) | (70) | 670,967 | 158,574 | (202) | (440) | 828,899 |
| Thermal power generation | | 84,263 | 1,834 | (4,103) | - | 81,994 | 2,187 | - | (229) | 83,952 |
| Geothermal power generation | | 156,743 | 113 | (575) | - | 156,281 | 19,185 | - | (133) | 175,333 |
| Wind power generation | | 7,204 | 279 | (94) | - | 7,389 | 36 | - | - | 7,425 |
| Solar power generation | | 8,722 | 704 | - | - | 9,426 | 606 | - | - | 10,032 |
| Micro hydro power generation | | 166 | - | - | - | 166 | - | - | - | 166 |
| Substations | | 146,398 | 29,707 | (931) | - | 175,174 | 44,219 | (1,447) | (1,099) | 216,847 |
| Transmission lines | | 130,237 | 14,174 | (622) | (2) | 143,787 | 15,038 | (1,385) | (109) | 157,331 |
| Distribution lines | | 252,805 | 55,327 | (2,138) | (199) | 305,795 | 32,638 | (2,118) | 960 | 337,275 |
| Street lighting | | 14,229 | 3,724 | (182) | 30 | 17,801 | 2,185 | (91) | (2) | 19,893 |
| Communication, control and infrastructure equipment | | 35,997 | 5,256 | (83) | - | 41,170 | 3,628 | (71) | - | 44,727 |
| General equipment | | 25,794 | 1,515 | (1,213) | - | 26,096 | 1,178 | (792) | 40 | 26,522 |
| Other | | 21,102 | 3,271 | - | - | 24,373 | 30,703 | - | - | 55,076 |
| **Equipment - ICE Telecom:** | | | | | | | | | | |
| Transport | | 509,936 | 77,553 | (81) | (29) | 587,379 | 55,321 | (615) | 101 | 642,186 |
| Access | | 398,284 | 62,915 | (107) | - | 461,092 | 26,851 | 1,164 | (143) | 488,964 |
| Civil and electromechanical | | 210,993 | 11,304 | (1,121) | (2) | 221,174 | 7,588 | 666 | 33 | 229,461 |
| Platforms | | 84,294 | 64,235 | (1,786) | 46 | 146,789 | 20,703 | 12,657 | (310) | 179,839 |
| Communication equipment | | 36,720 | 327 | (6,364) | - | 30,683 | 301 | (4,169) | - | 26,815 |
| Submarine cable -Maya - Arcos - Pacific | | 16,612 | - | - | - | 16,612 | - | (16,612) | - | - |
| General equipment | | 7,310 | 15 | (132) | - | 7,193 | 221 | (2,139) | - | 5,275 |
| Other | | 971 | - | - | - | 971 | - | - | - | 971 |
| **Operating assets under finance lease agreements: (1)** | | | | | | | | | | |
| Land | | 1,151 | - | - | - | 1,151 | - | - | - | 1,151 |
| Buildings | | 25,315 | - | - | - | 25,315 | - | - | - | 25,315 |
| Furniture and equipment | | 1,084 | 60 | - | - | 1,144 | 22 | - | - | 1,166 |
| **Other operating assets** | | 374,288 | 47,985 | (4,582) | 444 | 418,135 | 29,955 | (12,695) | (38) | 435,357 |
| **Total ICE Group** | ¢ | **3,175,174** | **427,345** | **(24,680)** | **218** | **3,578,057** | **451,139** | **(27,849)** | **(1,369)** | **3,999,978** |

*See note 25.

*(In millions of colones)*

*Accumulated depreciation at cost*

Accumulated depreciation of operating assets at cost is as follows:

| Accumulated depreciation - cost | | As of December 31, 2012 | Depreciation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2013 | Depreciation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Plant and equipment - ICE Electricity:** | | | | | | | | | | |
| Hydraulic power generation | ¢ | 81,387 | 17,447 | (23) | (21) | 98,790 | 17,795 | (60) | 1,662 | 118,187 |
| Thermal power generation | | 19,591 | 4,065 | (993) | 30 | 22,693 | 4,016 | - | (65) | 26,644 |
| Geothermal power generation | | 41,181 | 5,312 | 12 | - | 46,505 | 5,726 | - | (42) | 52,189 |
| Wind power generation | | 2,861 | 425 | 2 | - | 3,288 | 452 | - | - | 3,740 |
| Solar power generation | | 606 | 479 | - | - | 1,085 | 500 | - | - | 1,585 |
| Micro hydro power generation | | 19 | 6 | - | - | 25 | 4 | - | - | 29 |
| Substations | | 33,920 | 7,378 | (339) | (84) | 40,875 | 7,719 | (198) | (356) | 48,040 |
| Transmission lines | | 14,660 | 4,942 | (272) | (280) | 19,050 | 4,619 | (720) | (1) | 22,948 |
| Distribution lines | | 74,781 | 15,604 | (683) | (20) | 89,682 | 16,902 | (591) | 357 | 106,350 |
| Street lighting | | 4,108 | 552 | (158) | 29 | 4,531 | 662 | (55) | (1) | 5,137 |
| Communication, control and infrastructure equipment | | 8,207 | 2,021 | (25) | - | 10,203 | 1,802 | (24) | - | 11,981 |
| General equipment | | 12,433 | 1,428 | (166) | 14 | 13,709 | 1,366 | 192 | 48 | 15,315 |
| Other | | 3,012 | 420 | 23 | - | 3,455 | 342 | 22 | 151 | 3,970 |
| **Equipment - ICE Telecom:** | | | | | | | | | | |
| Transport | | 266,529 | 44,011 | (32) | (235) | 310,273 | 55,197 | (55) | (2) | 365,413 |
| Access | | 165,787 | 37,428 | 52 | (395) | 202,872 | 40,759 | 299 | (43) | 243,887 |
| Civil and electromechanical | | 117,720 | 13,864 | (80) | (309) | 131,195 | 12,741 | 241 | (42) | 144,135 |
| Platforms | | 29,923 | 16,566 | (309) | (496) | 45,684 | 23,961 | 6,400 | - | 76,045 |
| Communication equipment | | 29,454 | 3,156 | (3,040) | - | 29,570 | 1,069 | (4,952) | - | 25,687 |
| Submarine cable - Maya - Arcos - Pacific | | 4,763 | 980 | - | - | 5,743 | - | (5,743) | - | - |
| General equipment | | 2,617 | 712 | (64) | - | 3,265 | 472 | (736) | - | 3,001 |
| Other | | 236 | 25 | - | - | 261 | 24 | - | - | 285 |
| **Operating assets under finance lease agreements:** | | | | | | | | | | |
| Buildings | | 1,267 | 506 | - | - | 1,773 | 507 | - | - | 2,280 |
| Furniture and equipment | | 270 | 116 | - | - | 386 | 114 | - | - | 500 |
| **Other operating assets** | | 206,770 | 47,459 | (4,689) | - | 249,540 | 44,326 | (10,006) | - | 283,860 |
| **Total ICE Group** | ¢ | **1,122,102** | **224,902** | **(10,784)** | **(1,767)** | **1,334,453** | **241,075** | **(15,986)** | **1,666** | **1,561,208** |

(Continued)

Depreciation percentages used for the current and comparative year of operating assets, other operating assets, and operating assets under finance lease agreements are based on the following useful lives estimated for each class of asset:

| | **Useful life (in years)** |
|---|---|
| Buildings | 40 - 50 |
| Operating assets - ICE Electricity | 20 - 40 |
| Operating assets - ICE Telecom | 3 - 40 |
| Machinery and equipment | 1- 20 |

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

*(In millions of colones)*

*Revalued operating assets*

Revalued operating assets are as follows:

| Operating assets - revalued | | As of December 31, 2012 *(Restated)* * | Revaluation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2013 *(Restated)* * | Revaluation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Plant and equipment - ICE Electricity:** | | | | | | | | | | |
| Hydraulic power generation | | 1,221,792 | 25,372 | (9,638) | (326) | 1,237,200 | 160,438 | (188) | - | 1,397,450 |
| Thermal power generation | | 90,719 | 2,912 | (6,266) | | 87,365 | 13,777 | - | - | 101,142 |
| Geothermal power generation | | 314,139 | 9,209 | - | - | 323,348 | 37,438 | - | (12) | 360,774 |
| Wind power generation | | 4,625 | 186 | - | - | 4,811 | 1,045 | - | - | 5,856 |
| Solar power generation | | 1,451 | 295 | - | - | 1,746 | 708 | - | - | 2,454 |
| Micro hydro power generation | | 1 | 2 | - | - | 3 | 14 | - | - | 17 |
| Substations | | 178,465 | 6,244 | (2,885) | - | 181,824 | 25,922 | (2,760) | - | 204,986 |
| Transmission lines | | 96,511 | 5,776 | (1,003) | - | 101,284 | 12,627 | (3,353) | - | 110,558 |
| Distribution lines | | 370,663 | 13,501 | (3,433) | - | 380,731 | 49,904 | (1,737) | - | 428,898 |
| Street lighting | | 16,409 | 740 | (365) | 50 | 16,834 | 2,451 | (224) | - | 19,061 |
| Communication and infrastructure equipment | | 37,222 | 1,616 | (135) | - | 38,703 | 5,130 | (125) | - | 43,708 |
| Other | | 42,232 | 2,307 | - | - | 44,539 | 3,364 | 76 | - | 47,979 |
| **Equipment - ICE Telecom:** | | | | | | | | | | |
| Access | | 6 | - | - | - | 6 | - | - | (6) | - |
| Civil and electromechanical | | 89,332 | 3,729 | - | - | 93,061 | 7,294 | - | - | 100,355 |
| Communication equipment | | 9,733 | - | (1,526) | - | 8,207 | - | (575) | - | 7,632 |
| Other | | 2,298 | - | - | - | 2,298 | - | - | - | 2,298 |
| **Operating assets under finance lease agreements: (1)** | | | | | | | | | | |
| Land | | 90 | 35 | - | - | 125 | 71 | - | - | 196 |
| Buildings | | 2,152 | 829 | - | - | 2,981 | 1,645 | - | - | 4,626 |
| **Other operating assets** | | 53,489 | 2,502 | (4) | 15 | 56,002 | 5,254 | (6) | - | 61,250 |
| **Total ICE Group** | ¢ | **2,531,329** | **75,255** | **(25,255)** | **(261)** | **2,581,068** | **327,082** | **(8,892)** | **(18)** | **2,899,240** |

*See note 25.

In 2014, changes were applied to the accounting policy related to the treatment of the revaluation of “Other operating assets” and “Assets under finance lease agreements”, which gave rise to a decrease in the revalued cost for a total amount of ¢45,943 that includes ¢4,653 and ¢1,449 corresponding to CNFL and RACSA, respectively (see note 2 (e) (i) and 25).

(Continued)

*(In millions of colones)*

Rates applied to revalue the cost of each group of assets are as follows:

| Operating assets | As of December 31, 2014 | 2013 |
|---|---|---|
| **ICE Electricity:** | | |
| Hydraulic power generation | 0.08766 | 0.01324 |
| Thermal power generation | 0.08155 | 0.01771 |
| Substations | 0.07733 | 0.01917 |
| Transmission lines | 0.06072 | 0.02992 |
| Distribution lines | 0.07834 | 0.01819 |
| Street lighting | 0.08328 | 0.02013 |
| Geothermal power generation | 0.07856 | 0.01958 |
| Wind power generation | 0.08556 | 0.01589 |
| Solar power generation | 0.06351 | 0.02898 |
| Micro hydro power generation | 0.08766 | 0.01324 |
| Communication and control equipment | 0.06870 | 0.02514 |
| **ICE Electricity and Telecom:** | | |
| Civil works | 0.058127 | 0.030173 |
| Land | 0.055932 | 0.028111 |

The increase in the revaluation rates for the Electricity segment with respect to 2013 resulted from the variables involved in calculation as follows: the sell exchange rate (colon-U.S. dollar) for non-banking public sector operations increased by 7.91%, from ¢502.47 to ¢542.22; the local (Costa Rica) annual inflation rate for the period was 5.13%, an increase of 1.45% with respect to the rate reported for 2013 (3.68%); and the external (USA) inflation rate (Employment Cost Trends of the Bureau of Labor Statistics) increased from 1.63% in 2013 to 2.41% in 2014.

Operating assets in the Telecom segment are not revalued, except for land and civil works; instead, the rates indicated in the chart above are applied.

(Continued)

*(In millions of colones)*

Revaluation rates applied by CNFL, RACSA, and CVCRSA are as follows:

| **Operating assets** | **As of December 31,** | |
|---|---|---|
| | **2014** | **2013** |
| **CNFL:** | | |
| Hydraulic power generation | 0.069569 | 0.025262 |
| Distribution lines | 0.061499 | 0.030364 |
| Transmission lines | 0.105077 | 0.002813 |
| Substations | 0.065265 | 0.027983 |
| Street lighting | 0.067955 | 0.026282 |
| Land | 0.051277 | 0.036827 |
| Land improvements | 0.051277 | 0.036827 |
| Buildings | 0.051277 | 0.036827 |
| General equipment | 0.051277 | 0.000000 |
| Service connections | 0.080329 | 0.020500 |
| Communication systems | 0.061499 | 0.025262 |
| **RACSA and Cable Visión: (*)** | | |

**(*)** Assets were not revalued in 2014 and 2013 because they are considered as part of the Telecom segment.

*(In millions of colones)*

*Accumulated depreciation of revalued operating assets*

Accumulated depreciation of revalued operating assets is as follows:

| Accumulated depreciation - Revaluation | | As of December 31, 2012 (*Restated*)* | Revaluation | Depreciation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2013 (*Restated*)* | Revaluation | Depreciation | Retirements and transfers | Adjustments and reclassifications | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Plant and equipment - ICE Electricity:** | | | | | | | | | | | | |
| Hydraulic power generation | ¢ | 694,213 | 10,197 | 28,877 | (5,429) | 124 | 727,982 | 69,270 | 30,311 | (59) | (22) | 827,482 |
| Thermal power generation | | 55,081 | 1,209 | 1,889 | (4,684) | 40 | 53,535 | 6,194 | 2,073 | - | (25) | 61,777 |
| Geothermal power generation | | 123,300 | 3,214 | 9,973 | 249 | 107 | 136,843 | 14,401 | 10,684 | - | 1 | 161,929 |
| Wind power generation | | 1,900 | 75 | 234 | (23) | 29 | 2,215 | 473 | 260 | - | 25 | 2,973 |
| Solar power generation | | 509 | 32 | 58 | - | - | 599 | 107 | 75 | - | - | 781 |
| Micro hydro power generation | | (2) | - | - | - | - | (2) | 3 | 1 | - | 3 | 5 |
| Substations | | 112,763 | 2,706 | 6,003 | (1,853) | - | 119,619 | 11,342 | 5,968 | (651) | (764) | 135,514 |
| Transmission lines | | 66,804 | 1,433 | 2,250 | (730) | (6) | 69,751 | 3,245 | 2,330 | (1,655) | - | 73,671 |
| Distribution lines | | 223,619 | 6,357 | 12,592 | (2,274) | (1) | 240,293 | 23,854 | 13,088 | (2,476) | 768 | 275,527 |
| Street lighting | | 11,327 | 350 | 336 | (357) | 48 | 11,704 | 1,153 | 352 | (174) | - | 13,035 |
| Communication, control and infrastructure equipment | | 26,805 | 768 | 1,183 | (92) | - | 28,664 | 2,197 | 970 | (89) | (1) | 31,741 |
| Other | | 9,799 | 451 | 433 | 39 | - | 10,722 | 693 | 463 | 43 | - | 11,921 |
| **Equipment - ICE Telecom:** | | | | | | | | | | | | |
| Transport | | 1 | - | - | - | (1) | - | - | - | - | - | - |
| Access | | 5 | - | - | - | 1 | 6 | - | - | - | (6) | - |
| Civil and electromechanical | | 60,481 | 1,745 | 2,551 | - | - | 64,777 | 3,524 | 2,355 | - | - | 70,656 |
| Communication equipment | | 9,717 | - | 16 | (1,526) | - | 8,207 | - | - | (576) | - | 7,631 |
| Other | | 1,164 | - | 49 | - | 20 | 1,233 | - | 49 | - | - | 1,282 |
| **Operating assets under finance lease agreements: (1)** | | | | | | | | | | | | |
| Buildings | | 64 | 40 | 44 | - | - | 148 | 112 | 61 | - | - | 321 |
| **Other operating assets** | | 26,874 | 906 | 1,015 | 14 | - | 28,809 | 1,697 | 1,071 | (3) | - | 31,574 |
| **Total ICE Group** | ¢ | **1,424,424** | **29,483** | **67,503** | **(16,666)** | **361** | **1,505,105** | **138,265** | **70,111** | **(5,640)** | **(21)** | **1,707,820** |

*See note 25.

In 2014, changes were applied to the accounting policy related to the treatment of the revaluation of “Other operating assets” and “Assets under finance lease agreements”, which generated a decrease in the accumulated depreciation of revalued cost for a total amount of ¢37,919. Additionally, such changes resulted in an adjustment to the figures corresponding to CNFL and RACSA in the amount of ¢4,047 and ¢1,249, respectively (see note 2 (e) (*i*) and 25).

The nature of assets under finance lease agreements booked by ICE Group is described as follows:

(1) Assets under finance lease agreements

On January 29, 2010, Banco de Costa Rica (BCR) and ICE agreed to create a "Securitization Trust", which involved execution of a trust agreement whereby ICE acts as the trustor and beneficiary and BCR is named as the trustee.

Currently, the trust is authorized to issue public debt and has booked liabilities therefor as of December 31, 2014 and 2013. The trust, as the owner of "Centro Empresarial La Sabana" and office furniture and equipment, leases such property to ICE for a 12-year term, at the end of which ICE may exercise a purchase option for US$1 (one U.S. dollar). ICE has classified this lease as a finance lease. In accordance with ICE's accounting policies, this trust is not required to be included as an entity in the separate financial statements of ICE.

The main clauses of the Securitization Trust agreement are summarized below.

- The purposes of the trust are as follows:

    a) Acquire the necessary goods and services for operating and maintaining the building that is the subject of the agreement, in accordance with the purchase plans provided by the beneficiary, where appropriate;
    b) Lease the building and its appurtenances to ICE, manage cash flows to repay the financing, and provide preventive and corrective maintenance to the facilities in accordance with the agreed terms;
    c) Become a vehicle to issue and place securities in accordance with the terms and conditions established in the prospectus and the agreement, provided that prior authorization is granted by SUGEVAL, which is the entity responsible for regulating the issue of debt securities. Securities may be issued and placed in rounds, in conformity with the projected payments, terms, and conditions. The trust may also sign loan agreements to obtain the necessary funding, based on financial market conditions.

- The funds received by the trust from the lease shall be used to pay the principal and returns on the securities placed in the securities market, as well as private placements and funds obtained from local and international bank loans.
- The term of the trust is 30 years.
- The trust equity will be used exclusively to comply with and attain the objectives of the trust agreement.

*(In millions of colones)*

## Note 5. Construction work in progress

As of December 31, 2014 and 2013, the movement in construction work in progress is as follows:

| Construction work in progress | | As of December 31, 2013 *(Restated)** | Additions | Capitalizations | Interest and commissions | Adjustments and reclassifications | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|
| Reventazón Hydroelectric Project (1) | ¢ | 284,460 | 21,648 | - | 13,981 | (119,362) | 200,727 |
| Balsa Inferior Hydroelectric Project (2) | | 149,017 | 28,405 | (173,281) | - | - | 4,141 |
| Cachí Hydroelectric Project (3) | | 68,321 | 40,012 | - | 9,807 | - | 118,140 |
| Cariblanco - Trapiche Transmission Line | | 24,032 | 10,604 | - | 1,941 | - | 36,577 |
| Las Pailas II Geothermal Project | | 9,152 | 20,250 | - | 2,349 | (1,299) | 30,452 |
| PESSO Project | | 19,096 | 9,813 | (11,202) | 1,066 | - | 18,773 |
| Peñas Blancas - Garita Transmission Line | | 21,857 | 6,654 | (11,625) | 1,462 | - | 18,348 |
| Construction and rehabilitation of civil and metallic works | | 16,250 | 3,506 | (3,892) | 1 | (430) | 15,435 |
| Cóbano Transmission Line | | 6,686 | 4,112 | - | 651 | - | 11,449 |
| Anillo Sur Transmission Line | | 7,271 | 8,395 | (364) | 1,065 | (4,853) | 11,514 |
| Ongoing quality improvement (Distribution) | | 8,777 | 8,556 | (6,932) | 388 | - | 10,789 |
| Advanced mobile progress | | 9,019 | 6,067 | (5,113) | - | (39) | 9,934 |
| New Power Control Center | | 3,378 | 3,811 | - | 355 | - | 7,544 |
| Improvements to Telecom transport network | | 4,541 | 12,594 | (9,649) | - | (41) | 7,445 |
| Reinforcement of distribution system | | 5,949 | 5,236 | (4,274) | 76 | - | 6,987 |
| Management of network elements | | 6,486 | 4,673 | (4,426) | - | - | 6,733 |
| Advanced public terminals | | 61 | 26,762 | (20,625) | - | - | 6,198 |
| Network Development Project | | 6,353 | 6,316 | (7,438) | 42 | - | 5,273 |
| Advanced connectivity fiber optic (FOCA) | | 7,247 | 6,472 | (8,275) | - | (181) | 5,263 |
| Technical services for distribution projects | | 5,988 | 2,628 | (3,477) | 156 | - | 5,295 |
| Río Macho Hydroelectric Project | | 12,042 | 17,648 | (26,548) | 759 | (81) | 3,820 |
| Miravalles II Geothermal Project | | 10,975 | 225 | (8,872) | 2,115 | (733) | 3,710 |
| Technological infrastructure | | 2,092 | 1,154 | (137) | 361 | (172) | 3,298 |
| Renovation of power transformers | | 1,554 | 2,872 | (1,547) | 33 | (31) | 2,881 |
| Integral business customer services | | 1,904 | 5,790 | (4,960) | - | (13) | 2,721 |
| Jacó Transmission Line | | 949 | 1,475 | - | 130 | - | 2,554 |
| Permanent investment in transmission works | | 3,805 | 1,585 | (3,229) | 107 | 23 | 2,291 |
| SIEPAC Transmission Line | | 1,809 | 199 | - | 109 | - | 2,117 |
| Upgrade of street lighting - tests | | 1,578 | 1,438 | (931) | 12 | - | 2,097 |
| Coyol Transmission Line | | 342 | 1,712 | - | 40 | - | 2,094 |
| Advanced mobile services | | 720 | 3,480 | (2,567) | - | - | 1,633 |
| Infrastructure maintenance and soundproofing | | 2,494 | 2,411 | (3,359) | - | (7) | 1,539 |
| Street lighting | | 1,151 | 806 | (788) | 30 | - | 1,199 |
| Expansion and modernization of Electricity transport system | | 8,167 | 7,687 | (14,947) | 172 | - | 1,079 |
| Improvements to Electricity transport network | | 3,056 | 2,118 | (4,254) | 187 | (58) | 1,049 |
| Sundry projects | | 45,737 | 31,557 | (66,666) | 1,724 | (1,328) | 11,024 |
| Less: ****Elimination of Government services*** | | (3,752) | - | - | - | 135 | (3,617) |
| **Total ICE Group** | **¢** | **758,564** | **318,671** | **(409,378)** | **39,119** | **(128,470)** | **578,506** |

* See note 25.

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

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

(1) Reventazón Hydroelectric Power Project

The Reventazón Hydroelectric Power Project is located in the middle basin of the Reventazón River in Limón, Costa Rica and has a power output of 305 MW. The trust constitution agreement and the construction agreement have been subscribed and are in effect. The former agreement was authorized by the CGR. Financing is from ICE's own funds and funds from other financing schemes subscribed by ICE.

As of December 31, 2014, this project was adjusted in the amount of ¢119,362 due to the reclassification of costs related to the works included in the construction agreement signed with the trust. Additionally, works increase due to additions in the amount of ¢21,648, mainly due to payment of the project's payrolls and acquisition of construction materials and equipment.

(2) Balsa Inferior Hydroelectric Power Project

The Balsa Inferior Hydroelectric Power Project is located in Santa Rita de Florencia, San Carlos, Alajuela and will have an installed capacity of 37.5 MW and an average annual power output of 122 GW/h.

As of December 30, 2014, additions increased by ¢28,405, mainly due to the percentage of completion of the project's executing unit.

In the 2014 period, a partial capitalization was performed in the amount of ¢173,281 as a result of the start-up of operations of the Balsa Inferior Hydroelectric Power Project. The balance of ¢4,141 corresponds to materials and overage of assets that will be analyzed and included in the final closing of the project's accounting records.

(3) Cachí Hydroelectric Power Project

The Cachí Hydroelectric Power Project uses water from the middle basin of the Reventazón River. The engine room is located 4 km south of Juan Viñas, in the Tucurrique district, canton of Jiménez. The reservoir and dam are located in the Cachí district, canton of Paraíso. Both cantons are located in the province of Cartago.

The works consist of the expansion of the current engine room, construction of an additional tunnel that will provide the plant with an additional power output of 20 MW, a surge tank, and two inspection openings.

Additions increased by ¢40,012 due to the acquisition of materials and equipment.

(Continued)

*(In millions of colones)*

The movement in construction work in progress, materials in transit, and inventory for investment as of December 31, 2014 and 2013 is as follows:

| Account | | As of December 31, 2012 *(Restated)** | Additions | Capitalizations | Interest and commissions | Warehoused | Adjustments and reclassifications | Used in works | As of December 31, 2013 *(Restated)** | Additions | Capitalizations | Interest and commissions | Warehoused | Adjustments and reclassifications | Used in works | As of December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Construction work in progress | ¢ | 676,700 | 427,882 | (319,962) | 46,533 | - | (68,837) | - | 762,316 | 318,671 | (409,378) | 39,119 | - | (128,605) | - | 582,123 |
| Less: ***Elimination of Government services*** | | - | - | - | - | - | (3,752) | - | (3,752) | - | - | - | - | 135 | - | (3,617) |
| **Subtotal construction work in progress** | | **676,700** | **427,882** | **(319,962)** | **46,533** | **-** | **(72,589)** | **-** | **758,564** | **318,671** | **(409,378)** | **39,119** | **-** | **(128,470)** | **-** | **578,506** |
| Materials in transit for investment | | 150,701 | 17,751 | (49) | - | (25,686) | (136) | (32,291) | 110,290 | 25,681 | (497) | - | (31,823) | (25,213) | (44,254) | 34,184 |
| Inventory for investment | | 173,281 | 1,207 | - | - | 74,558 | (16,717) | (94,284) | 138,045 | 9,713 | (529) | - | 82,548 | (5,146) | (64,760) | 159,871 |
| **Total ICE Group** | **¢** | **1,000,682** | **446,840** | **(320,011)** | **46,533** | **48,872** | **(89,442)** | **(126,575)** | **1,006,899** | **354,065** | **(410,404)** | **39,119** | **50,725** | **(158,829)** | **(109,014)** | **772,561** |

* See note 25.

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

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

*(In millions of colones)*

**Note 6. Long-term investments**

Long-term investments are as follows:

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| **Other investments valued at cost:** | | | |
| Fideicomiso Proyecto Hidroeléctrico Toro 3 (1) | ¢ | 11,203 | 11,203 |
| Empresa Propietaria de la Red, S.A. (2) | | 3,124 | 3,124 |
| Red Centroamericana de Fibras Ópticas, S.A. (3) | | 143 | 143 |
| Cooperativa de Electrificación Rural, R.L. | | 43 | 43 |
| Red Centroamericana Telecomunicaciones S.A. | | 10 | 10 |
| **Subtotal** | | **14,523** | **14,523** |
| **Long-term financial investments:** | | | |
| Government (External debt bonds) | | 25,309 | 20,273 |
| BCCR (Bond) | | 5,820 | 6,598 |
| Other | | 8,126 | 6,333 |
| **Subtotal** | | **39,255** | **33,204** |
| **Total ICE Group** | ¢ | **53,778** | **47,727** |

The nature of main long-term financial investments is as follows:

Investments in bonds and Central Bank bonds with returns that range between 6.67% and 11.13% per annum (2013: between 6.15% and 12.50% per annum) in colones and between 4.70% and 5.50% per annum (2013: 4.70% and 6.55% per annum) in U.S. dollars. Investments denominated in colones and U.S. dollars amount to ¢38,174 and ¢1,081, equivalent to US$2, respectively (2013: ¢32,199 denominated in colones and ¢1,005 denominated in U.S. dollars, equivalent to US$2) and mature between February 2015 and July 2023 (2013: March 2014 and July 2023).

(Continued)

(1) Toro 3 Hydroelectric Power Project Trust

On March 9, 2006, ICE and JASEC subscribed a business partnership agreement for the joint construction of the Toro 3 Hydroelectric Power Project whereby both entities will have equal participation (50% each) in respect of rights and obligations, with the purpose of designing, financing, constructing, operating, and maintaining such project. In January 2008, under the business partnership agreement, ICE and JASEC subscribed a Trust agreement with BCR whereby ICE and JASEC act as trustors and beneficiaries and BCR is named as the trustee. The purpose of the trust is the independent generation and management of the necessary financial resources to build the Toro 3 Hydroelectric Power Project. In addition, the trust will construct the project (for which ICE will be hired) within the established term, lease the plant to ICE and JASEC, purchase the required construction goods and services, provide maintenance services, and manage the cash flows to repay the financing and make timely payments in relation thereto (see note 29). The trust agreement is for a term of 30 years.

On January 26, 2012, the trustors (ICE and JASEC) subscribed an addendum to the previously established trust agreement through whereby they agreed to contribute at least 20% of the funds required to finance the Toro 3 Hydroelectric Power Project, so that the Trust obtains the funds required to finance the remaining amount. Accordingly, ICE made a contribution in kind (construction materials and work force), equivalent to ¢11,203, which is 10% of the funds required to finance the Toro 3 Hydroelectric Power Project. The remaining 10% required as per the addendum was contributed by JASEC.

On January 26, 2012, ICE, JASEC, and the Toro 3 trust subscribed a lease agreement for the Toro 3 Hydroelectric Power Project, with the following characteristics:

- Lessor: Toro 3 trust, represented by BCR;
- Lessees: ICE and JASEC;
- Term: one hundred and thirty-seven (137) months from June 1, 2013, which is the date of commencement of the lease;
- Transfer: Upon expiration of the lease agreement, the lessors (JASEC-ICE) may exercise a purchase option for the power project.

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

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

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

In June 2014, EPR paid ICE Group returns on the investment (see note 36).

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

In 2013, ICE Group acquired ownership interest in Red Centroamericana de Fibras Ópticas, S.A. (REDCASA), which is dedicated to developing, financing, constructing, operating, and commercially exploiting and providing maintenance to telecom services or services related to IT and communications. REDCASA's share capital is comprised of 2,700 ordinary shares of US$1,000 par value each. ICE Group owns 300 shares, of which 93.24% are owned by ICE and 6.75% by CNFL. Currently, REDCASA has no commercial operations.

## Note 7. Cash and cash equivalents

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Cash in vaults and banks | ¢ | 10,135 | 10,126 |
| Cash equivalents | | 123,008 | 76,152 |
| **Total ICE Group** | **¢** | **133,143** | **86,278** |

*(In millions of colones)*

The features of cash equivalents are as follows:

| | Currency | Issuer | Type of financial instrument | | As of December 31, 2014 Balance | Face value | Rate of return | Term in months |
|---|---|---|---|---|---|---|---|---|
| **Uncommitted:** | | | | | | | | |
| *Available-for-sale* | **Colones** | Repurchase operations | Repurchase operations | ¢ | 5,265 | 5,288 | 5.68% - 5.71% | Dec 2014 - Jan 2015 |
| | | Banco CITIBANK (CMB COSTA RICA) | Term certificate of deposit | | 891 | 1,891 | 6.72% | Oct 2014 - Jan 2015 |
| | | BN Sociedad de Fondos de Inversión, S.A. | Investment funds | | 15 | - | - | Demand |
| | **U.S. dollars** | Banco Internacional de Costa Rica | Overnight deposit | | 39,701 | 0 | 0.20% | Demand |
| | | Banco Internacional Costa Rica | Overnight deposit BICSA U.S. dollars | | 9,452 | - | 0.20% | Demand |
| | | Repurchase operations | Repurchase operations | | 2,231 | 2,234 | 1.93% - 2.14% | Dec 2014 - Jan 2015 |
| *Held-to-maturity* | **Colones** | Banco Nacional de Costa Rica | Short-term investment | | 6,073 | 7,742 | 3.75% | Dec 2014 - Jan 2015 |
| | | Banco de Costa Rica | Term certificate of deposit | | 11,966 | 11,966 | 3.45% | Dec 2014 - Jan 2015 |
| | | Banco Nacional de Costa Rica | Short-term investment | | 6,378 | 6,378 | 3.75% | Dec 2014 - Jan 2015 |
| | | Banco de Costa Rica | Term certificate of deposit | | 5,800 | 6,378 | 3.45% | Dec 2014 - Jan 2015 |
| | | Government | Zero-coupon Central Bank global bond (over the counter) | | 2,522 | 2,534 | 5.75% | Nov 2014 - Jan 2015 |
| | | Government | Treasury note | | 2,003 | 2,007 | 4.96% | Dec 2014 - Jan 2015 |
| | **U.S. dollars** | Banco Internacional de C.R. -Miami- | Term certificate of deposit (electronic over the counter) | | 13,556 | 13,556 | 1.00% | Dec 2014 - Jan 2015 |
| | | Banco Internacional de Costa Rica | Term deposit - BICSA, Miami branch | | 2,711 | 2,711 | 1.00% | Dec 2014 - Jan 2015 |
| *Fair value* | **Colones** | SAFI Banco Nacional de Costa Rica | I.F. non-diversified Superfondo BN - colones | | 33 | - | 3.64% - 4.46% | Demand |
| | | SAFI Banco de Costa Rica | I.F. non-diversified short-term BCR | | 487 | - | 4.31% - 5.20% | Demand |
| | | SAFI Instituto Nacional de Seguros | I.F. non-diversified INS - Public liquidity - colones | | 1,710 | - | 4.55% - 5.59% | Demand |
| | | Banco Popular | SAFI Banco Popular | | 174 | - | 4.24% | Demand |
| | | SAFI BAC San José | BAC San José Liquidez Colones [BAC San José liquidity in colones]; non-diversified | | 50 | - | 3.95% | Demand |
| | | Scotiabank de Costa Rica | SAFI Scotiabank | | 2 | - | 2.98% | Demand |
| | | Banco Nacional de Costa Rica | Investment fund (non-diversified Superfondo - colones) | | 13 | - | 4.46% | Demand |
| | | Banco de Costa Rica | Investment funds | | 61 | - | 4.31% - 5.20% | Demand |
| | | SAFI Instituto Nacional de Seguros | I.F. non-diversified INS - Public liquidity - colones | | 34 | - | 4.55% - 5.59% | Demand |
| | | Banco Popular | Investment funds | | 5 | - | 4.24% | Demand |
| | | Scotiabank de Costa Rica | SAFI Scotiabank | | 22 | - | 2.98% | Demand |
| | **U.S. dollars** | SAFI Banco Nacional de Costa Rica | I.F. non-diversified BN - U.S. dollars | | 1,901 | - | 0.89% - 1.27% | Demand |
| | | Banco de Costa Rica | SAFI Banco de Costa Rica | | 4,797 | - | 0.97% - 1.06% | Demand |
| | | SAFI Instituto Nacional de Seguros | I.F. non-diversified INS - Public liquidity - colones | | 4,612 | - | 0.95% - 1.96% | Demand |
| | | Banco de Costa Rica | Non-diversified liquidity investment funds - U.S. dollars | | 6 | - | 0.96% | Demand |
| | | Scotiabank de Costa Rica | Non-diversified public investment funds | | 537 | - | 0.86% | Demand |
| **Total ICE Group** | | | | ¢ | **123,008** | - | | |

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

| | | Issuer | Type of financial instrument | | As of December 31, 2013 Balance | Face value | Rate of return | Term in months |
|---|---|---|---|---|---|---|---|---|
| **Uncommitted:** | | | | | | | | |
| *Available-for-sale* | **Colones** | Banco Popular | Term certificate of deposit | ¢ | 740 | 740 | 8.75% | Nov 2013 to Jan 2014 |
| | | Banco Central de Costa Rica | Monetary Stabilization Bond | | 298 | 3,900 | 5.60% | Nov 2013 to Jan 2014 |
| | | Repurchase operations | Repurchase operations | | 658 | 666 | 5.90% | Nov 2013 to Jan 2014 |
| | | BN Sociedad de Fondos de Inversión, S.A. | Investment funds | | 14 | - | - | Demand |
| | **U.S. dollars** | Banco Internacional de Costa Rica | Overnight | | 39,626 | - | 0.20% | Demand |
| | | Banco Internacional Costa Rica | Overnight deposit No. 104600328 BICSA U.S. dollars | | 6,427 | - | 0.20% | Demand |
| | | Repurchase operations | Repurchase operations | | 544 | 544 | 2.91% - 5.30% | Dec 2013 to Jan 2014 |
| *Held-to-maturity* | **Colones** | Banco de Costa Rica | Term certificate of deposit | | 9,517 | 9,517 | 3.00% | Dec 2013 to Jan 2014 |
| | | Banco de Costa Rica | Term certificate of deposit | | 11,183 | 11,184 | 3.00% | Dec 2013 to Jan 2014 |
| | **U.S. dollars** | Banco de Costa Rica | Term certificate of deposit | | 5,025 | 5,025 | 0.15% | Dec 2013 to Jan 2014 |
| | | Banco Nacional de Costa Rica | Term certificate of deposit | | 501 | 502 | 0.0075 | 90 days |
| *Fair value* | **Colones** | Banco de Costa Rica | Investment funds | | 3 | - | 3.44% - 4.08% | Demand |
| | | SAFI BAC San José | BAC San José Liquidez Colones [BAC San José liquidity in colones]; non-diversified | | 50 | - | 3.07% | Demand |
| | | Banco Popular | SAFI Banco Popular | | 4 | - | 2.64% | Demand |
| | | Banco de Costa Rica | Investment funds | | 11 | - | 3.44%-4.08% | Demand |
| | | Banco Popular | Investment funds | | 1 | - | 2.39% | Demand |
| | | SAFI BAC San José | BAC San José Liquidez Colones [BAC San José liquidity in colones]; non-diversified | | 50 | - | 2.95% | Demand |
| | **U.S. dollars** | Banco de Costa Rica | Investment funds | | 1,368 | - | 1.31% | Demand |
| | | Banco de Costa Rica | Investment funds | | 132 | - | 1.31% | Demand |
| **Total ICE Group** | | | | ¢ | **76,152** | - | | |

## Note 8. Temporary investments

As of December 31, 2014, ICE holds held-to-maturity investments (term certificates of deposit) denominated in colones in the amount of ¢3,000 (2013: ¢3,456, of which ¢2,349 is denominated in colones and ¢1,107 is denominated in U.S. dollars) and available-for-sale investments (term certificates of deposit, zero-coupon monetary stabilization bonds, Central Bank bond, fixed-rate monetary stabilization bond, and mortgage participation certificates) in the amount of ¢61,932, of which ¢61,389 is denominated in colones and ¢543 is denominated in U.S. dollars (2013: ¢54,174, of which ¢53.036 is denominated in colones and ¢1,138 is denominated in U.S. dollars), bearing interest at rates ranging between 2.94% and 8.80% per annum (2013: between 3% and 8.74% per annum) and maturing between 6 and 12 months (2013: between 4 and 12 months).

*(In millions of colones)*

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Held-to-maturity and available-for-sale investments | ¢ | 64,932 | 57,630 |
| Valuation of investments | | (599) | 20 |
| **Net total ICE Group** | **¢** | **64,333** | **57,650** |

**Valuation of investments**

The accounting treatment for temporary investments is determined on a case-by-case basis for each instrument, including determination of face values, interest, premiums, discounts, and transaction costs. Premiums, discounts, and transaction costs are amortized using the effective interest method.

Available-for-sale investments are valued at market prices using the price vector furnished by PIPCA. The effect of the valuation of available-for-sale investments is included in equity under "Result of valuation of financial instruments" until the instrument is derecognized.

As of December 31, 2014, ICE recognized a net unrealized loss in the amount of (¢599) (2013: ¢20) as a result of the valuation of available-for-sale temporary investments. Such unrealized loss is included under "Result of valuation of financial instruments" in the equity section.

**Note 9. Restricted funds**

Restricted funds allocated to specific purposes are as follows:

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| **Guarantees received from third parties:** | | | |
| In U.S. dollars | ¢ | 825 | 914 |
| In colones | | 529 | 358 |
| **Specific purpose funds** | | | |
| BCR Platinum (¢) - Cash for payments of ICE | | 3,421 | 2,468 |
| BNCR Gold - Cash for amortization of short- | | 3,260 | 1,666 |
| **Total ICE Group** | | **8,035** | **5,406** |

*(In millions of colones)*

**Note 10. Notes and accounts receivable**

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

| | | As of December 31, | | | |
|---|---|---|---|---|---|
| | | 2014 | | 2013 | |
| | | Long-term | Short-term | Long-term | Short-term |
| Loan to autonomous entities (1) | ¢ | 7,005 | - | 7,046 | - |
| Individuals | | - | 2,582 | - | 1,669 |
| In legal collections | | - | 108 | - | 108 |
| Payment arrangements | | - | 225 | - | 54 |
| CNFL-MINAET Agreement (Olivier Hydroelectric Project) | | 634 | 16 | - | - |
| Other | | 16 | 88 | 62 | 300 |
| **Total ICE Group** | **¢** | **7,655** | **3,019** | **7,108** | **2,131** |

(1) Loan to autonomous entities

911 Emergency system

An inter-institutional agreement between ICE and the 911 emergency system was subscribed on December 21, 2012 through the "Agreement to Pay Accounts due from the 911 Emergency System to ICE". In this agreement, the debt was expressly acknowledged and accepted, and a "payment arrangement" was formally subscribed by the 911 emergency system to settle such debt. As of December 31, 2014, the debt balance amounts to ¢4,565 (2013: ¢4,784).

In accordance with the long-term note due to ICE, the payment arrangement is for a term of 10 years starting January 1, 2013 and the liability is payable by the 911 emergency system in 16 half-yearly installments. A two-year grace period was established for payment of the principal and interest. The first payment is due on January 1, 2015, while the final payment is due on July 1, 2022. The balance bears interest at the base deposit rate of BCCR in effect the week preceding the due date.

Currently, the original agreement is renegotiated to extend the recovery term to allow ICE to complete the corresponding collection process.

(Continued)

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

A loan agreement was subscribed between ICE and EPR to repay loan IDB No. 1908 for ¢2,440, equivalent to US$4.5 (in millions) (2013: ¢2,261). The total debt term is 25 years starting November 24, 2010, with a 5-year grace period, payable half-yearly, bearing a variable interest rate (3-month 0.23% LIBOR rate + 0.04% funding margin + 0.85% IDB's lending spread as of 2014).

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

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Individuals | ¢ | 52,086 | 49,990 |
| In administrative and legal collections | | 42,344 | 36,590 |
| Electricity services - consumers | | 21,693 | 20,791 |
| Electricity cooperatives and municipal electricity distribution companies | | 9,437 | 8,246 |
| Operator and service providers | | 5,253 | 5,790 |
| Telephone administrations | | 2,316 | 1,562 |
| Public agencies | | 3,166 | 2,798 |
| Other | | 3,297 | 2,272 |
| **Total receivables for services rendered** | | **139,592** | **128,039** |
| Individuals (1) | | 45,638 | 45,129 |
| Government taxes | | 7,687 | 7,147 |
| Agreements, paid services and other | | 1,662 | 1,053 |
| Damage to electrical installations | | 919 | 730 |
| Sundry government services | | 638 | 242 |
| Other | | 2,324 | 3,135 |
| **Total non-trade receivables** | | **58,868** | **57,436** |
| **Subtotal** | | **198,460** | **185,475** |
| Allowance for doubtful accounts | | (30,667) | (32,917) |
| **Net total ICE Group** | ¢ | **167,793** | **152,558** |

* See note 25.

(1) Non-trade receivables - Individuals

As of December 31, 2014, this item includes, among other, advance payments made by ICE to purchase fuel for the generation of energy in thermal power plants for ¢6,617 (2013: ¢16,085), advance payments to private individuals related to guarantees for ¢1,744 (2013: ¢16,179), interest and fees and commissions for ¢2,182 (2013: ¢2,094), receivables for unpriced services for ¢28,780 (2013: ¢2,260) (including services to third parties provided by the Strategic Business Units), outstanding invoices for construction services related to the Reventazón Hydroelectric Power Project, and ICE's deposits in courts for ¢3,104 (2013: ¢7,013).

*(In millions of colones)*

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

| **Allowance for doubtful accounts** | | **As of December 31, 2012** | **Prior period adjustments** | **Used** | **Recoveries** | **Expense** | **As of December 31, 2013** | **Prior period adjustments** | **Used** | **Recoveries** | **Expense** | **As of December 31, 2014** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Receivables for services rendered | ¢ | 30,205 | 1,829 | (11,556) | 1,258 | 6,738 | 28,474 | 51 | (11,020) | 936 | 4,953 | 23,393 |
| Non-trade receivables | | 5,411 | - | (969) | - | 1 | 4,443 | 1,522 | 1,308 | - | 1 | 7,274 |
| **Total ICE Group** | **¢** | **35,616** | **1,829** | **(12,525)** | **1,258** | **6,739** | **32,917** | **1,573** | **(9,712)** | **936** | **4,954** | **30,667** |

(Continued)

*(In millions of colones)*

**Note 11. Operating inventory**

Operating inventory is as follows:

| | | As of December 31, 2014 | 2013 (Restated)* |
|---|---|---|---|
| Operating inventory | ¢ | 56,858 | 39,495 |
| Materials in transit for operations | | 656 | 10,927 |
| Materials and equipment held in custody | | 19,020 | 3,449 |
| **Subtotal** | | **76,534** | **53,871** |
| Allowance for valuation of operating inventory | | (12,258) | (10,956) |
| **Total ICE Group** | ¢ | **64,276** | **42,915** |

* See note 25.

The movement in the allowance for valuation of inventories is as follows:

| | | As of December 31, | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2012** | **Used** | **Expenses** | **2013** | **Used** | **Expenses** | **2014** |
| Allowance for valuation of inventory | ¢ | 5,976 | (2,414) | 7,394 | 10,956 | (1,347) | 2,649 | 12,258 |
| **Total ICE Group** | ¢ | **5,976** | **(2,414)** | **7,394** | **10,956** | **(1,347)** | **2,649** | **12,258** |

*(In millions of colones)*

**Note 12. Prepaid expenses**

Prepaid expenses are as follows:

| | | As of December 31, 2014 | 2013 |
|---|---|---|---|
| Mobile terminals and devices | ¢ | 41,617 | 37,882 |
| Use agreements (1) | | 19,082 | 18,688 |
| Fuel (2) | | 12,891 | 7,877 |
| Imports (3) | | 20,466 | - |
| U-500 insurance policy, net (4) | | 6,625 | 4,448 |
| All-risk insurance policy - construction | | 2,367 | 4,131 |
| Phone book | | 2,064 | 2,183 |
| Other | | 1,411 | 808 |
| **Total ICE Group** | **¢** | **106,523** | **76,017** |

| **U-500 insurance policy** | | As of December 31, 2014 | 2013 |
|---|---|---|---|
| Opening balance | ¢ | 4,448 | 4,396 |
| Amount of premium | | 10,614 | 12,415 |
| Amortization of premium | | (8,437) | (12,363) |
| **Total ICE Group** | **¢** | **6,625** | **4,448** |

(1) Use agreements

On November 5, 2007, ICE and BCR (trustee) subscribed 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 an additional seven months.

(Continued)

(2) Fuel

In 2012, according to Decision No. 977-RCR-2012 dated November 2, 2012, ARESEP partially approved the request filed by ICE for the recognition through rate adjustments of fuel additional expenses corresponding to the first half of 2012. Those expenses for a total of ¢19,225 were not recognized in the rate approved in ARESEP's prior ruling. Of that amount, ICE recovered ¢3,765 in 2012, while the outstanding amount of ¢15,460 corresponds to lags in the recognition of fuel expenses in that year. According to Decision ARESEP RJD-003-2013 dated February 25, 2013, such lags must be recognized quarterly through rate adjustments from July 1, 2013. Through Decision No. 795-SJD-2013/125269 dated November 29, 2013, ARESEP upheld ICE's request to transfer the lagged balance corresponding to fuel approved in 2012 to the first and second quarters of 2014 (through Agreement No. 04-14-2013), for the balance to be applied in the rates corresponding to the third and fourth quarters of 2014. That balance is fully amortized in that year (2013: ¢7,877).

Through Decision RIE-034-2014 dated June 27, 2014, ARESEP approved the recognition of the rate adjustments related to the difference between estimated and real fuel expenses corresponding to February, March, and April in the amount of ¢37,167. ARESEP upheld ICE's request for quarterly recognition of ¢16,360 and ¢7,916 in the third and fourth quarters of 2014, respectively, and the remainder to be recognized quarterly in equal amounts in 2015. As of December 31, 2014, the balance pending amortization in respect of such recognition amounts to ¢12,891.

(3) Imports

In September 2014, through Decision ARESEP RIE 061-2014, the request for rate adjustments was approved in respect of expenses for imported electric power in the amount of ¢31,045. Based on such decision and ICE's accounting policies, the aforementioned amount will be deferred over a 15-month term starting October 1, 2014, so that these costs are associated with revenue obtained through the rate applied during that term. As of December 31, 2014, the balance pending amortization amounts to ¢20,466.

(Continued)

(4) U-500 insurance policy

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

**Note 13. Service agreements**

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

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Reventazón Hydroelectric Project (1) | ¢ | 23,337 | 91,620 |
| Water supply system project | | 473 | - |
| Other | | 122 | 11 |
| **Subtotal ICE** | | **23,932** | **91,631** |
| * Eliminations of Government services | | (1) | (47) |
| **Total ICE Group** | ¢ | **23,931** | **91,584** |

* Internal consumption for services incurred by the different areas of

(1) Reventazón Hydroelectric Power Project

The Reventazón Hydroelectric Power Project is located in the middle basin of the Reventazón River in Limón, Costa Rica; has a power output of 305 MW.

The project will use the water of the Reventazón River and will become, when completed, one of the hydroelectric power plants with the greatest installed capacity in the country, with a design flow rate of 240 $m^3/s$ and a power output of 305.5 MW.

The project is expected to start operations in late 2016. The estimated cost of the works amounts to US$1,406 (in millions).

On May 22, 2013, ICE and Banco Scotiabank subscribed an infrastructure trust agreement for the development of the Reventazón Hydroelectric Power Project called "UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement", whereby ICE acts as the Trustor and Main Beneficiary, Banco Scotiabank as Trustee, and the individuals identified in each notification for appointment of secondary beneficiaries as such.

The main clauses of the UNO P.H. Reventazón/ICE/Scotiabank/2013 Trust Agreement are summarized below.

- The purposes of the trust are as follows:

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

On May 22, 2013, ICE and Banco Scotiabank subscribed the following agreements related to the financing structure established under the Trust:

*EPC (Engineering, Procurement, and Construction) Turnkey Agreement:*

- The UNO P.H. Reventazón Trust acts as the employer and ICE as the contractor responsible for the construction of the Reventazón Hydroelectric Power Project. The agreement amounts to US$693 (in millions) and the construction must be completed no later than the fourth quarter of 2016.

- This agreement establishes that ICE should provide the UNO P.H. Reventazón Trust with a quarterly breakdown of the amounts that ICE considers has the right to charge and related supporting documentation. The trust will reimburse ICE once the detail of costs is reviewed and approved.

  ICE's main services under the agreement include engineering services related to the project's design, purchase of required materials, acquisition of required work force, and construction services for the project.

*(In millions of colones)*

*Lease agreement for the Reventazón Hydroelectric Power Project*

- The UNO P.H. Reventazón Trust acts 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.

As of December 31, 2014, the services agreement related to the Reventazón Hydroelectric Power Project decreased by ¢68,283 with respect to the prior year, mainly due to the payment of invoices for the project's construction services. The balance of the "Service agreements" account of ¢23,337 corresponds to outstanding costs incurred that will be billed in accordance with the agreement.

As of December 31, 2014, ICE cedes land in the amount of ¢1,102 as trust property to the UNO P.H. Reventazón Trust.

**Note 14. Project design and execution**

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

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| El Diquís Hydroelectric Project (1) | ¢ | 78,825 | 71,023 |
| Borinquén Geothermal Project (2) | | 21,852 | 19,847 |
| Refitting of south-center transmission line | | 4,823 | 4,222 |
| Verbena transmission line | | 2,011 | - |
| La Carpio Deviation | | 1,399 | - |
| Transmission lines | | 640 | 2,348 |
| Other | | 1,192 | 1,264 |
| **Subtotal ICE** | | **110,742** | **98,704** |
| * Elimination of Government services | | (122) | (154) |
| **Total ICE Group** | **¢** | **110,620** | **98,550** |

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

The nature and main transactions of the project design and execution works are described as follows:

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

PHED is located in the Southern Region of Costa Rica, will have a power output of 650 MW and an annual power generation of 3,050 GW/h, and was declared a matter of national interest in Decree No. 34312-MP-MINAE of 2008.

As of December 31, 2014, PHED includes costs incurred prior to construction and disbursements made during the investment phase, which encompasses the design of the works, and technical, economic, and financial studies for a total of ¢78,825 (2013: ¢71,023) that were required to complete the Environmental Feasibility Studies and the final Environmental Impact Study. PHED's Environmental Impact Study is in its final stages and will be submitted to Secretaría Técnica Nacional Ambiental [National Technical Secretariat for the Environment] (SETENA), which is the entity charged with issuing the environmental feasibility permit or environmental permit required to begin construction of the project.

The area required for PHED covers a number of indigenous territories, the most significant of which are China Kichá (Cabécar) and Térraba (Térraba). The area of PHED's reservoir will require the use of 74 and 653 hectares of those indigenous lands, which will be flooded. Legal actions and consultative processes have been initiated with the aforementioned communities, seeking an agreement for execution of the project.

In the opinion of ICE's Legal Department, the consultative process with indigenous peoples is required for the issue of the Environmental Permit required by ICE to begin construction of PHED.

PHED is the defendant in Lawsuit No. 11-001691-1027-CA filed by Asociación de Desarrollo Integral del Territorio Indígena de Térraba [Association for the Comprehensive Development of the Térraba Indigenous Reservation] (ADIT) with the Sixth Section of the Administrative Litigation Court requesting the nullity of Decree No. 34312-MP-MINAE of 2008, which declares PHED works and studies and its transmission works to be a matter of public and national interest, as well as eviction from the indigenous territories allegedly occupied by ICE. As a result of alleged cultural damages and occupation of indigenous territories by ICE, the plaintiff is seeking compensatory damages for a reasonable estimate of US$200 (in millions) or its equivalent in colones. In the opinion of ICE's legal counsel, the defense for these cases is based on reasonable arguments; however, legal counsel is unable to predict a favorable outcome since the proceedings are in the early stages.

(Continued)

In December, 2014, an appeal was filed by ADIT against Decree No. 34312-MP-MINAE of 2008 which declared PHED's activities to be a matter of public interest and national convenience, claiming violation and non-compliance with the term granted through Ruling No. 2011-01275 related to constitutional motion No. 08-009215-0007-CO. The opinion of ICE's advisors remains the same with respect to the fact that the entity's role as the project's developer is different from the role of the Government of the Republic, which is the sole party responsible for performing such consultation process, in accordance with International Standards that have been declared Law of the Republic. As previously informed, the outcome of this consultative process is binding for the issue of the Environmental Permit.

As of the date of this report, there is no defined work schedule for performing the consultative process with indigenous peoples. Preparing and implementing the schedule is the responsibility of the Government of the Republic of Costa Rica, based on the agreements reached between the parties (the Government of the Republic acting as the sole responsible and the indigenous peoples that reside within the project's area of influence). ICE's responsibility as the project's developer consists of furnishing the required information on the project, its works, and their impact and environmental measures, which has been prepared by qualified professionals as input for the discussions between the Government of the Republic and the indigenous peoples for the consultative process. However, ICE's active involvement in such process requires prior authorization from the Government of the Republic of Costa Rica.

(2) Borinquén Geothermal Power Project

The project is located in the Guanacaste Mountain Range, on the Pacific slope of the Rincón de la Vieja Volcano, and will have an estimated power output of 55 MW.

Costs incurred as of December 31, 2014 correspond to work related to site preparation for deep-well drilling. Construction is expected to begin in late 2015.

As of December 31, 2014, this project increased by ¢2,005 as a result of the use of technical service centers related to underground exploration, as well as payment of payroll to workers in connection with the project's execution and purchase of materials and metallic products required to perform the works.

The Borinquén Geothermal Power Project has a feasibility study completed and approved as of December 31, 2014. Since the initial planning was changed, a Preparatory Technical Study was issued that demonstrates the geothermal potential in the Borinquén sector. For purposes of the Japanese International Cooperation Agency (JICA), which finances part of the project, and the Government of Costa Rica, the aforementioned report is considered the Feasibility Study.

(Continued)

*(In millions of colones)*

## Note 15. Non-operating assets

Assets related to activities other than the normal operations of ICE and the corresponding accumulated revaluation and accumulated depreciation are as follows:

| Non-operating assets | | As of December 31, 2012 | Additions at cost | Retirements and transfers | 2013 | Additions at cost | Retirements and transfers | 2014 |
|---|---|---|---|---|---|---|---|---|
| **Historical cost:** | | | | | | | | |
| Land | ¢ | 23,095 | 930 | 16 | 24,041 | 2,716 | (5) | 26,752 |
| Buildings | | 4,740 | - | 155 | 4,895 | 1 | (132) | 4,764 |
| Land and rights of way | | - | 968 | (968) | - | 28 | (28) | - |
| Artwork and collector's items | | 23 | - | - | 23 | - | - | 23 |
| Substations | | 1,963 | - | - | 1,963 | - | - | 1,963 |
| Hydroelectric power plants | | 674 | - | - | 674 | - | - | 674 |
| General equipment | | 899 | - | - | 899 | - | - | 899 |
| Surco Tico, S.A.- Forestry project | | 841 | 86 | - | 927 | 83 | - | 1,010 |
| Other assets | | 146 | - | (1) | 145 | - | - | 145 |
| **Total cost - ICE Group** | | **32,381** | **1,984** | **(798)** | **33,567** | **2,828** | **(165)** | **36,230** |
| **Accumulated depreciation - cost:** | | | | | | | | |
| Land and land improvements | | 35 | 9 | - | 44 | 8 | - | 52 |
| Buildings | | 477 | 232 | 89 | 798 | 234 | (32) | 1,000 |
| Substations | | 183 | 63 | - | 246 | 63 | - | 309 |
| Hydroelectric power plants | | 117 | 17 | - | 134 | 31 | - | 165 |
| General equipment | | 2 | - | - | 2 | - | - | 2 |
| Other assets | | 14 | - | - | 14 | - | - | 14 |
| **Total accumulated depreciation - cost ICE Group** | | **828** | **321** | **89** | **1,238** | **336** | **(32)** | **1,542** |
| **Revaluation:** | | | | | | | | |
| Land | | 6,364 | 818 | 313 | 7,495 | 1,739 | (1) | 9,233 |
| Buildings | | 1,271 | 215 | 1,420 | 2,906 | 404 | (160) | 3,150 |
| Land and rights of way | | - | 206 | (206) | - | - | - | - |
| Substations | | 134 | 40 | - | 174 | 165 | - | 339 |
| Hydroelectric power plants | | 7,374 | 162 | - | 7,536 | 402 | - | 7,938 |
| General equipment | | 1 | - | - | 1 | - | - | 1 |
| Other assets | | 157 | 11 | - | 168 | 15 | - | 183 |
| **Total revaluation ICE Group** | | **15,301** | **1,452** | **1,527** | **18,280** | **2,725** | **(161)** | **20,844** |
| **Accumulated depreciation-revaluation:** | | | | | | | | |
| Land and land improvements | | 213 | 17 | - | 230 | 22 | - | 252 |
| Buildings | | 798 | 57 | 1,353 | 2,208 | 68 | 26 | 2,302 |
| Substations | | 9 | 5 | 4 | 18 | 6 | 20 | 44 |
| Hydroelectric power plants | | 5,185 | 159 | - | 5,344 | 248 | - | 5,592 |
| General equipment | | 1 | - | - | 1 | - | - | 1 |
| Other assets | | 47 | 5 | - | 52 | 3 | - | 55 |
| **Total accumulated depreciation - revaluation ICE Group** | | **6,253** | **243** | **1,357** | **7,853** | **347** | **46** | **8,246** |
| **Total non-operating assets ICE Group** | ¢ | **40,601** | **2,872** | **(717)** | **42,756** | **4,870** | **(340)** | **47,286** |

(Continued)

*(In millions of colones)*

The methodology and rates used in the revaluation of operating assets are applied for the revaluation of non-operating assets (see note 4).

## Note 16. Intangible assets

Intangible assets are as follows:

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| **Intangible assets:** | | | |
| Licenses, systems and applications | ¢ | 81,116 | 84,089 |
| Rights of way and easements (1) | | 24,974 | 23,777 |
| Rights guaranteed by law | | 2 | - |
| Goodwill (2) | | 5,863 | 5,372 |
| **Total cost ICE Group** | | **111,955** | **113,238** |
| **Accumulated amortization:** | | | |
| Licenses, systems and applications | | 60,392 | 53,203 |
| Goodwill | | 300 | - |
| **Total amortization ICE Group** | | **60,692** | **53,203** |
| **Net total ICE Group** | ¢ | **51,263** | **60,035** |

* See note 25.

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

(1) Rights of way and easements

Rights of way and easements correspond to payments made to the owners of land that ICE Group is required to access to develop its various projects and to provide electricity and telecom services. In accordance with the terms and conditions of the agreements, ICE Group only has rights of way and easements that do not entail the purchase of land or assignment of property to ICE Group.

(Continued)

Right of way agreements do not establish a term (in years) to exercise the right but contemplate a permanent easement instead. Such rights of way mainly derive from the existence of transmission lines. Accordingly, these intangible assets meet the requirements to have an indefinite useful life because there is no defined term for the assets to continue generating cash flows to the entity; accordingly, they are not amortized.

(2) Goodwill

Goodwill corresponds to the excess of the acquisition cost over the carrying amount (net equity) of the subsidiaries acquired in 2013, i.e. CVCRSA and EVCSA (merged with CNFL in 2014) and is amortized over a 20-year term (see note 3 (a) *(i)*).

The movement in intangible assets is as follows:

*(In millions of colones)*

| | | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Licenses, systems and applications** | | **Rights of way and easements** | | **Rights guaranteed by law** | **Goodwill** | | **Total** | |
| | | **2014** | **2013** | **2014** | **2013** | **2014** | **2014** | **2013** | **2014** | **2013** |
| **Cost** | | | | | | | | | | |
| Opening balance | ¢ | 84,089 | 72,103 | 23,777 | 23,951 | - | 5,372 | - | 113,238 | 96,054 |
| Additions | | 17,004 | 19,529 | 1,200 | - | 2 | 491 | 5,372 | 18,697 | 24,901 |
| Transfers | | (9,402) | (3,491) | 6 | - | - | - | - | (9,396) | (3,491) |
| Retirements | | (11,006) | (3,981) | - | - | - | - | - | (11,006) | (3,981) |
| Adjustments | | 431 | (71) | (9) | (174) | - | - | - | 422 | (245) |
| **Total cost ICE Group** | **¢** | **81,116** | **84,089** | **24,974** | **23,777** | **2** | **5,863** | **5,372** | **111,955** | **113,238** |
| | | | | | | | | | | |
| **Accumulated amortization** | | | | | | | | | | |
| Opening balance | ¢ | 53,203 | 40,052 | - | - | - | - | - | 53,203 | 40,052 |
| Amortization - expense | | 12,973 | 11,454 | - | - | - | 300 | - | 13,273 | 11,454 |
| Amortization - investment | | 1,316 | 1,926 | - | - | - | - | - | 1,316 | 1,926 |
| Reclassifications | | - | 9 | - | - | - | - | - | - | 9 |
| Transfers | | (4,514) | (5) | - | - | - | - | - | (4,514) | (5) |
| Retirements | | (2,586) | (233) | - | - | - | - | - | (2,586) | (233) |
| **Total amortization ICE Group** | | **60,392** | **53,203** | **-** | **-** | **-** | **300** | **-** | **60,692** | **53,203** |
| | | | | | | | | | | |
| **Net total ICE Group** | **¢** | **20,724** | **30,886** | **24,974** | **23,777** | **2** | **5,563** | **5,372** | **51,263** | **60,035** |

See note 25.

(Continued)

*(In millions of colones)*

**Note 17. Guarantee and Savings Fund (restricted fund)**

ICE's Employee Guarantee and Savings Fund was created under Law No. 3625 of December 16, 1965. Pursuant to that law, ICE must allocate reserves and funds to the payment of severance benefits and to the employee fund and must continue matching all member employee contributions.

The main activity of the Employee Guarantee and Savings Fund is granting mortgage and personal loans to employees for housing and generating returns, which are partially capitalized to the savings of member employees and partially allocated to the annual distribution of dividends.

The balance of the employer contribution transferred by ICE Group to the Employee Guarantee and Savings Fund is allocated as follows:

| | | As of December 31, | | | |
|---|---|---|---|---|---|
| | | 2014 | | 2013 | |
| | | **Amount** | **%** | **Amount** | **%** |
| **ICE:** | | | | | |
| Electricity | ¢ | 76,475 | 39% | 71,746 | 39% |
| Telecom | | 105,888 | 54% | 99,341 | 54% |
| Corporate | | 13,726 | 7% | 12,877 | 7% |
| **Subtotal ICE** | **¢** | **196,089** | **100%** | **183,964** | **100%** |
| **RACSA:** | | | | | |
| RACSA Guarantee and Savings Fund | | 2,534 | 100% | 2,400 | 100% |
| **Subtotal RACSA** | | **2,534** | **100%** | **2,400** | **100%** |
| **Total ICE Group** | **¢** | **198,623** | **100%** | **186,364** | **100%** |

Of that amount, ¢115,438 corresponds to the Supplemental Pension System and ¢80,651 to the Savings Fund (4.5% and 6%, respectively, of the monthly salaries of ICE's permanent employees).

*(In millions of colones)*

**Note 18. <u>Amortizable items</u>**

Amortizable items are as follows:

| | | | | As of December 31, | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2012 | | | 2013 | | | 2014 |
| **Cost:** | **Frequency** | **Method** | | **Balance** | **Write-offs** | **Increase** | **Balance** | **Write-offs** | **Increase** | **Balance** |
| Projects | 1 to 180 months | Straight line | ¢ | 749 | - | - | 749 | - | - | 749 |
| Transaction costs - investments | 30 to 180 months | Effective interest | | 268 | (342) | 1,812 | 1,738 | (388) | 502 | 1,852 |
| Commissions for financing agreements | 12 to 180 months | Effective interest | | 7,081 | (403) | 181 | 6,859 | (1,701) | - | 5,158 |
| **Total cost - ICE Group** | | | | **8,098** | **(745)** | **1,993** | **9,346** | **(2,089)** | **502** | **7,759** |
| | | | | | | | | | | |
| **Amortization:** | **Frequency** | **Method** | | **Balance** | **Write-offs** | **Amortizations** | **Balance** | **Write-offs** | **Amortizations** | **Balance** |
| Projects | 1 to 180 months | Straight line | | 450 | - | 26 | 476 | - | 26 | 502 |
| Transaction costs - investments | 30 to 180 months | Effective interest | | 167 | (225) | 453 | 395 | (277) | 634 | 752 |
| Commissions for financing agreements | 12 to 180 months | Effective interest | | 2,921 | (450) | 997 | 3,468 | (1,875) | 758 | 2,351 |
| **Total amortization ICE Group** | | | | **3,538** | **(675)** | **1,476** | **4,339** | **(2,152)** | **1,418** | **3,605** |
| | | | | | | | | | | |
| **Net total - ICE Group** | | | ¢ | **4,560** | **(70)** | **517** | **5,007** | **63** | **(916)** | **4,154** |

(Continued)

*(In millions of colones)*

## Note 19. Securities payable (bonds)

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

| | As of December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Securities payable** | **2012** | **Amortization** | **Foreign exchange differences** | **Disbursements** | **2013** | **Amortization** | **Foreign exchange differences** | **Disbursements** | **2014** | **Long-term** |
| **Internal debt:** | | | | | | | | | | |
| INS securities | ¢ 13,379 | 13,379 | - | - | ¢ - | - | - | - | ¢ - | - |
| Bond issue (1) | 525,644 | - | (4,111) | 10,300 | 531,833 | - | 24,171 | 27,131 | 583,135 | 583,135 |
| **External debt:** | - | - | - | - | | - | - | - | - | - |
| Bond placement - Credit Suisse First Boston (2) | 50,923 | 20,099 | (270) | - | 30,554 | 30,148 | (406) | - | - | - |
| International bond issue (3) | 254,615 | - | (6,760) | 254,615 | 502,470 | - | 39,750 | - | 542,220 | 542,220 |
| **Other:** | - | - | - | - | | - | - | - | - | - |
| Premium bond issue | 8,495 | 752 | - | - | 7,742 | 803 | (3) | 1,475 | 8,411 | 8,411 |
| Discount bond issue | (1,735) | (154) | - | (4,178) | (5,759) | (165) | - | - | (5,594) | (5,594) |
| Standardized commercial paper | 78 | 78 | - | - | - | - | - | - | - | - |
| **Total ICE Group** | **¢ 851,399** | **34,154** | **(11,141)** | **260,737** | **¢ 1,066,840** | **30,786** | **63,512** | **28,606** | **¢ 1,128,172** | **1,128,172** |

(Continued)

The features of the aforementioned securities payable (bonds) are as follows:

| Securities payable | | | |
|---|---|---|---|
| **Creditor** | **Term** | **Annual interest rate** | **Currency** |
| ***Internal debt:*** | | | |
| Bond issue | Maturing between September 30, 2017 and May 16, 2023 | Variable between 3.21% and 9.95%<br>Fixed between 10.30% and 11.45% | ¢ |
| Bond issue | Maturing between May 20, 2016 and September 7, 2027 | Fixed between 5.71% and 7.65% | US$ |
| ***External debt:*** | | | |
| Bond issue | Maturing between November 9, 2021 and May 14, 2043 | Fixed between 6.38% and 6.95% | US$ |

Internal debt:

1) Bond issues

*(i)* **Series A6-2014 Bonds:** In October 2014, ICE placed funds in the amount of ¢6,351 at a TSB rate + 2.15%.

*(ii)* **Series F3-2014 Bonds:** In October and December 2014, ICE placed funds in the amount of ¢8,500 and ¢12.280, respectively, at a TSB rate + 3%.

External debt:

2) Series B Bonds - Credit Suisse First Boston

In February 2014, Series B Bonds of Credit Suisse First Boston were fully amortized. The issue was conducted in U.S. dollars for a total of US$60 (in millions) (equivalent to ¢30,554), bearing interest at the fixed rate of 6.45% per annum.

3) ICE's international bond issues

In November 2011 and May 2012 and 2013, ICE held an auction for bonds in the international market. The total raised amounts to US$1,000 (in millions) equivalent to ¢542,220 (2013: ¢502,470). Bonds were issued at 10 to 30 year terms, bearing interest at fixed rates ranging between 6.38% and 6.95% per annum.

(Continued)

*(In millions of colones)*

## Note 20. Loans payable

As of December 31, 2014, the movement in loans payable is as follows:

| | | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **2013** | **Amortization** | **Foreign exchange differences** | **Disbursements** | **2014** | **Long-term** | **Short-term** | | **2014 (in U.S. dollars)** |
| **Internal debt:** | | | | | | | | | | |
| *Loans payable:* | | | | | | | | | | |
| Non-restructured debt - Tranche V | ¢ | 333 | 222 | 9 | - | 120 | - | 120 | | 0.2 |
| Banco Nacional de Costa Rica | | 31,942 | 1,464 | - | - | 30,478 | 27,643 | 2,835 | | 56.2 |
| Scotiabank | | 15,523 | 6,243 | 887 | - | 10,167 | 7,456 | 2,711 | | 18.8 |
| BCR Trust (1) | | 23,016 | 1,763 | - | - | 21,253 | 17,908 | 3,345 | | 39.2 |
| Supplier credit (2) | | 30,502 | 8,189 | 1,941 | 1,825 | 26,079 | 16,534 | 9,545 | | 48.1 |
| Chiripa Wind Consortium | | - | - | - | 3,888 | 3,888 | 3,888 | - | | 7.2 |
| Scotia Leasing | | 5 | 4 | - | - | 1 | - | 1 | | 0.0 |
| BAC Leasing | | 48 | 4 | 1 | 21 | 66 | - | 66 | | 0.1 |
| *Lines of credit:* | | | | | | | | | | |
| Scotiabank | | 18,089 | 73,298 | 1,947 | 53,262 | - | - | - | | - |
| **External debt:** | | | | | | | | | | |
| *Loans payable:* | | | | | | | | | | |
| CABEI (3) | | 64,448 | 4,397 | 7,585 | 69,520 | 137,156 | 132,005 | 5,151 | | 253.0 |
| IDB (4) | | 234,396 | 25,223 | 17,542 | 38,701 | 265,416 | 235,686 | 29,730 | | 489.5 |
| BNP Paribas | | 2,150 | 1,490 | 114 | - | 774 | - | 774 | | 1.4 |
| Nordea Export & Project Finance | | 3,815 | 3,815 | - | - | - | - | - | | - |
| M&T Bank | | 2,957 | 1,189 | 164 | - | 1,932 | 672 | 1,260 | | 3.6 |
| Banistmo, S.A. | | 61,553 | 11,944 | 4,292 | - | 53,901 | 41,221 | 12,680 | | 99.4 |
| Andean Development Corporation (CAF) | | 39,779 | 4,187 | 2,815 | - | 38,407 | 33,889 | 4,518 | | 70.8 |
| Citibank | | 7,934 | 4,124 | 471 | - | 4,281 | - | 4,281 | | 7.9 |
| Japan Bank for International Cooperation | | 58,834 | 4,703 | (2,774) | - | 51,357 | 46,899 | 4,458 | | 94.7 |
| Cisco Systems | | 20,779 | 3,386 | 1,427 | 593 | 19,413 | 14,754 | 4,659 | | 35.8 |
| Multibank INC. | | 798 | 553 | 42 | - | 287 | - | 287 | | 0.5 |
| Scotiabank (5) | | - | - | - | 48,800 | 48,800 | 34,857 | 13,943 | | 90.0 |
| Global Bank Corporation (6) | | - | - | - | 10,844 | 10,844 | - | 10,844 | | 20 |
| Instituto Crédito Oficial (Spain) | | 12,218 | 704 | 976 | - | 12,490 | 11,796 | 694 | | 23.0 |
| Deutsche Bank, Sociedad Anónima Española | | 1,930 | 1,394 | 158 | - | 694 | - | 694 | | 1.3 |
| Kreditanstal für Wiederaufbau | | 9,759 | 1,964 | 786 | - | 8,581 | 6,629 | 1,952 | | 15.8 |
| Banco Interamericano de Desarrollo (BICSA) | | 8,554 | 3,639 | 668 | 1,646 | 7,229 | 6,428 | 801 | | 13.3 |
| Banco de Costa Rica | | 40,428 | 412 | - | - | 40,016 | 39,389 | 627 | | 73.8 |
| Banco Nacional de Desarrollo Económico y Social - Brazil (BNDES) (7) | | 11,523 | - | 978 | 5,612 | 18,113 | 17,210 | 903 | | 33.4 |
| Banco Nacional de Costa Rica (8) | | 27,791 | 416 | 2,123 | 10,460 | 39,958 | 39,012 | 946 | | 73.7 |
| Secured financing agreement | | 170 | - | (170) | - | - | - | - | | - |
| Liability restructuring | | 155 | - | (155) | - | - | - | - | | - |
| Secured Financing Agreement (CONAVI-BNCR) | | 18 | - | (18) | - | - | - | - | | - |
| Finance Ministry (9) | | - | - | - | 7,043 | 7,043 | 6,652 | 391 | | 13.0 |
| *Lines of credit:* | | | | | | - | | | | |
| Citibank | | 7,035 | 16,079 | - | 9,044 | - | - | - | | - |
| Bladex | | 50,246 | 60,295 | - | 10,049 | - | - | - | | - |
| Global Bank Corporation | | 5,025 | 21,964 | (123) | 17,062 | - | - | - | | - |
| Mercantil Commercebank | | 12,562 | 46,256 | 1,033 | 32,661 | - | - | - | | - |
| **Total internal debt - ICE Group** | | **119,458** | **91,187** | **4,785** | **58,996** | **92,052** | **73,429** | **18,623** | **US$** | **169.8** |
| **Total external debt - ICE Group** | | **684,857** | **218,134** | **37,934** | **262,035** | **766,692** | **667,099** | **99,593** | **US$** | **1,414.0** |
| **Total debt - ICE Group** | **¢** | **804,315** | **309,321** | **42,719** | **321,031** | **858,744** | **740,528** | **118,216** | **US$** | **1,583.78** |

(Continued)

*(In millions of colones)*

In 2014, the general features of loans payable classified as internal and external debt are as follows:

| General features of debt (U.S. dollars and colones, as indicated) | | | |
|---|---|---|---|
| | **Interest rate** | **Currency** | **Term** |
| **Internal debt:** | | | |
| Restructured - Tranche V | Fixed 6.75% | US$ | Maturing on May 21, 2015 |
| Banco Nacional de Costa Rica | Variable, from 5.25% to 10.50% | ¢-US$ | Maturing between March 13, 2019 and October 1, 2033 |
| BCR Trust | Variable 10.95% | ¢ | Maturing on July 22, 2022 |
| Commercial banks: | | | |
| Scotiabank | Variable from 4.76% to 6.00%, fixed between 1.26% and 5.60% | US$ | Maturing between January 12, 2015 and December 18, 2021 |
| Scotia Leasing | Variable 6.25% | US$ | Maturing on May 6, 2015 |
| BAC Leasing | Variable 6.25% Fixed 8.50% | US$ | Maturing between August 26, 2019 and July 10, 2020 |
| Supplier credit | Fixed, between 4.95% and 5.45% | | Maturing between June 1, 2016 and August 12, 2019 |
| Multilateral organizations: | | | |
| Central American Bank for Economic Integration (CABEI) | Variable from 4.69% to 7.68%, Fixed between 4.03% and 8.50% | US$ | Maturing between October 21, 2015 and November 22, 2038 |
| Interamerican Development Bank (IDB) | Variable from 1.16% and 4.71%, Fixed 2% | US$-JPY-EURO-GBP | Maturing between September 9, 2015 and October 15, 2037 |
| **External debt:** | | | |
| Bilateral organizations: | | | |
| Andean Development Corporation (CAF) | Variable 2.03% | US$ | Maturing on April 9, 2023 |
| Japan Bank For International Cooperation | Fixed 2.20% | JPY | Maturing on April 20, 2026 |
| Multilateral organizations | | | |
| Interamerican Development Bank (IDB) | Variable from 4.08% to 4.71% | US$ | Maturing between February 15, 2018 and February 15, 2023 |
| Commercial banks | | | |
| Banco de Costa Rica | Variable from 2.00% to 3.00% | ¢ | Maturing on July 6, 2032 |
| Citibank | Variable 8.25% | US$ | Maturing on December 19, 2015 |
| M & T Bank | Variable from 2.23% to 2.53% | US$ | Maturing between December 11, 2015 and September 30, 2016 |
| Multibank INC | Variable 4.83% | US$ | Maturing on June 20, 2015 |
| BNP Paribas | Variable 1.48% | US$ | Maturing on June 20, 2015 |
| Global Bank | Fixed 1.25% | US$ | Maturing on January 12, 2015 |
| Ministry of Finance | Variable 12.68% | ¢ | Maturing on December 30, 2024 |
| Nordea Export & Project Finance | Fixed 2.51% | US$ | Maturing between February 28, 2014 and December 8, 2014 |
| Cisco Systems | Fija from 2.95% to 3.39% | | Maturing between April 6, 2013 and October 8, 2020 |
| M & T Bank | Variable 6M LIBOR + 1.85% | US$ | Maturing on December 11, 2015 |
| Banistmo, S.A. | Variable 5.17% Fixed between 4.15% and 4.95% | | Maturing between December 6, 2013 and December 12, 2020 |
| Scotiabank | Fixed 5.40% | US$ | Maturing on December 17, 2021 |
| Instituto Crédito Oficial Reino de España | Fixed 0.70% | US$ | Maturing on September 25, 2032 |
| Deutsche Bank, Sociedad Anónima Española | Fixed 5.86% | US$ | Maturing on April 20, 2015 |
| Kreditanstal Fur Wiederaufbau (K.F.W.) | Variable 3.68% | US$ | Maturing between September 30, 2018 and March 30, 2020 |
| Banco Internacional de Costa Rica (BICSA) | Fixed between 4.50% and 5.00% | US$ | Maturing between May 25, 2013 and December 8, 2014 |
| Banco Nacional de Desarrollo Económico y Social de Brasil (B.N.D.E | Fixed 4.50% | US$ | Maturing on March 19, 2023 |
| Global Bank Corporation | Fixed 3.61% | US$ | Maturing on August 10, 2015 |

(Continued)

*(In millions of colones)*

As of December 31, 2013, the movement in loans payable is as follows:

| | | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2012 | Amortization | Foreign exchange differences | Disbursements | 2013 | Long-term | Short-term | | Equivalent in US$ 2013 |
| **Internal debt:** | | | | | | | | | | |
| *Loans payable:* | | | | | | | | | | |
| Non-restructured debt - Tranche V | ¢ | 563 | 225 | (5) | - | 333 | 111 | 222 | | 0.7 |
| Banco Nacional de Costa Rica (B.N.C.R) | | 33,226 | 1,284 | - | - | 31,942 | 29,309 | 2,633 | | 63.6 |
| Scotiabank | | 20,005 | 4,250 | (233) | - | 15,523 | 9,422 | 6,101 | | 30.9 |
| BCR Trust | | 24,588 | 1,572 | - | - | 23,016 | 21,229 | 1,787 | | 45.8 |
| Supplier credit | | 28,128 | 7,245 | (415) | 10,034 | 30,502 | 22,424 | 8,078 | | 60.7 |
| Scotia Leasing | | - | - | - | 5 | 5 | - | 5 | | 0.0 |
| BAC Leasing | | - | - | - | 48 | 48 | - | 47 | | 0.1 |
| *Lines of credit:* | | | | | | | | | | |
| Scotiabank | | 17,685 | 51,162 | (210) | 51,776 | 18,089 | - | 18,089 | | 36.0 |
| **External debt** | | | | | | | | | | |
| *Loans payable:* | | | | | | | | | | |
| Banco Centroamericano de Integración Económica (B.C.I.E.) | | 173,399 | 137,961 | (760) | 29,770 | 64,448 | 60,051 | 4,397 | | 128.3 |
| Banco Europeo de Inversiones (B.E.I. ) | | 2,485 | 2,485 | - | - | - | - | - | | - |
| Interamerican Development Bank (IDB) | | 228,874 | 23,089 | (2,960) | 31,570 | 234,396 | 209,756 | 24,640 | | 466.5 |
| BNP Paribas | | 3,632 | 1,443 | (39) | - | 2,150 | 716 | 1,434 | | 4.3 |
| Nordea Export & Project Finance | | 8,735 | 4,862 | (58) | - | 3,815 | 941 | 2,874 | | 8 |
| M&T Bank | | 4,179 | 1,179 | (44) | - | 2,957 | 1,790 | 1,167 | | 5.9 |
| Banistmo, S.A. | | 6,111 | 2,037 | (54) | 57,533 | 61,553 | 49,802 | 11,751 | | 122.5 |
| Andean Development Corporation (C.A.F.) | | 44,558 | 4,244 | (535) | - | 39,779 | 35,592 | 4,187 | | 79.2 |
| Citibank | | 12,061 | 3,994 | (133) | - | 7,934 | 3,967 | 3,967 | | 15.8 |
| Japan Bank For International Cooperation | | 78,665 | 5,827 | (14,004) | - | 58,834 | 53,241 | 5,593 | | 117.1 |
| Natexis Banque | | 24 | 24 | - | - | - | - | - | | - |
| Cisco Systems | | 21,426 | 3,451 | (284) | 3,088 | 20,779 | 17,399 | 3,380 | | 41.4 |
| Multibank INC. | | 1,617 | 805 | (14) | - | 798 | 266 | 532 | | 1.6 |
| Instituto Crédito Oficial Reino de España | | 13,034 | 640 | (176) | - | 12,218 | 11,575 | 643 | | 24.3 |
| Deutsche Bank, Sociedad Anónima Española | | 3,259 | 1,281 | (48) | - | 1,930 | 645 | 1,286 | | 3.8 |
| Kreditanstal Fur Wiederaufbau | | 11,724 | 1,806 | (159) | - | 9,759 | 7,950 | 1,808 | | 19.4 |
| Banco Internacional de Costa Rica (BICSA) | | 8,668 | 1,503 | (114) | 1,503 | 8,554 | 6,694 | 845 | | 15.0 |
| Banco de Costa Rica | | 31,550 | - | - | 8,878 | 40,428 | 40,428 | 1,016 | | 82.5 |
| Banco Nacional de Desarrollo Económico y Social de Brasil - BNDES | | - | - | 22 | 11,501 | 11,523 | 11,523 | - | | 22.9 |
| Banco Nacional de Costa Rica | | - | - | 56 | 27,735 | 27,791 | 27,195 | 596 | | 55.3 |
| Control Electrónico S.A. (CESA) | | 5 | 5 | - | - | - | - | - | | - |
| Secured financing agreement | | - | - | 170 | - | 170 | - | 170 | | 0.3 |
| Reconversion of liability | | 148 | - | 7 | - | 155 | 155 | - | | 0.3 |
| Secured financing agreement (CONAVI-Banco Nacional de Costa Rica) | | - | - | 18 | - | 18 | 18 | - | | 0.0 |
| *Lines of credit:* | | | | | | | | | | |
| Citibank | | - | 7,638 | - | 14,673 | 7,035 | - | 7,035 | | 14.0 |
| Bladex | | - | 79,440 | (413) | 130,099 | 50,246 | - | 50,246 | | 100.0 |
| Global Bank Corporation | | - | - | - | 5,025 | 5,025 | - | 5,025 | | 10.0 |
| Mercantil Commercebank | | 6,620 | 39,686 | (68) | 45,696 | 12,562 | - | 12,562 | | 25.0 |
| **Total internal debt ICE Group** | | **124,195** | **65,738** | **(863)** | **61,863** | **119,458** | **82,495** | **36,963** | **US$** | **237.7** |
| **Total external debt ICE Group** | | **660,772** | **323,399** | **(19,590)** | **367,071** | **684,857** | **539,704** | **145,153** | **US$** | **1,363.0** |
| **Total debt ICE Group** | **¢** | **784,967** | **389,137** | **(20,453)** | **428,934** | **804,315** | **622,199** | **182,116** | **US$** | **1,600.7** |

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

In 2013, the general features of loans payable classified as internal and external debt are as follows:

| General features of debt (U.S. dollars and colones, as indicated) | | | |
|---|---|---|---|
| | **Interest rate** | **Currency** | **Term** |
| **Internal debt:** | | | |
| Restructured - Tranche V | Fixed 6.75% | US$ | Maturing on May 21, 2015 |
| Banco Nacional de Costa Rica (B.N.C.R) | Variable 10.50% | ¢-US$ | Maturing on August 31, 2025 |
| BCR Trust | Variable 10.30% | ¢ | Maturing on July 22, 2022 |
| Commercial banks: | | | |
| Scotiabank | Variable from 4.76% to 6.00% | US$ | Maturing between December 22, 2014 and December 22, 2017 |
| Supplier credit | Fixed between 4.95% and 5.45% | US$ | Maturing between June 1, 2016 and August 31, 2018 |
| Scotia Leasing | Variable 6.25% | US$ | Maturing between November 11, 2014 and May 6, 2015 |
| BAC Leasing | Variable 6.25%<br>Fixed 8.50% | US$ | Maturing on August 26, 2019 |
| **External debt:** | | | |
| Banco Nacional de Costa Rica | Variable from 5.25% to 5.75% | US$ | Maturing between March 13, 2019 and October 10, 2033 |
| Banco Europeo de Inversiones (B.E.I. ) | Fixed 6.32% | US$ | Maturing on November 25, 2013 |
| Multilateral organizations: | | | |
| Banco Centroamericano de Integración Económica (B.C.I.E.) | Variable from 6.35% and 7.68%, fixed between 6.40% and 8.50% | US$ | Maturing between October 14, 2014 and May 22, 2033 |
| Interamerican Development Bank (IDB) | Variable from 1.17% and 4.84%<br>Fixed 2.00% | US$-JPY-EURO | Maturing between September 9, 2015 and October 15, 2037 |
| Bilateral organizations: | | | |
| Andean Development Corporation (CAF) | Variable 2.14% | US$ | Maturing on April 9, 2023 |
| Japan Bank For International Cooperation | Fixed 2.20% | JPY | Maturing on April 20, 2026 |
| Natexis Banque | Fixed 3.50% | EURO | Maturing on June 30, 2013 |
| Commercial banks | | | |
| Banco de Costa Rica | Variable from 2.00% to 3.00% | ¢ | Maturing on July 6, 2032 |
| Citibank | Variable 8.25% | US$ | Maturing on December 19, 2015 |
| M & T Bank | Variable from 2.29% to 2.65% | US$ | Maturing between December 11, 2015 and September 30, 2016 |
| BNP Paribas | Variable 6M LIBOR + 4.50%<br>Variable 1.56% | US$ | Maturing on June 20, 2015 |
| Multibank INC | Variable 4.9% | US$ | Maturing on June 20, 2015 |
| Nordea Export & Project Finance | Fixed 2.51% | US$ | Maturing between February 28, 2014 and December 8, 2015 |
| Cisco Systems | Fixed between 3.00% and 3.39% | US$ | Maturing between April 6, 2013 and October 8, 2020 |
| Banistmo, S.A. | Variable 5.22% Fixed between 4.15% and 4.95% | US$ | Maturing between December 6, 2013 and December 12, 2020 |
| Hong Kong Shanghai Bank Corp. (HSBC) Panamá | Variable 6M LIBOR + 4.95% | US$ | Maturing on November 8, 2015 |
| Instituto Crédito Oficial Reino de España | Fixed 0.70% | US$ | Maturing on September 25, 2032 |
| Deutsche Bank, Sociedad Anónima Española | Fixed 5.86% | US$ | Maturing on April 20, 2015 |
| Kreditanstal Fur Wiederaufbau (K.F.W.) | Variable 3.8% | US$ | Maturing between September 30, 2018 and March 30, 2020 |
| Banco Internacional de Costa Rica (BICSA) | Fixed between 4.00% and 5.00% | US$ | Maturing between May 25, 2013 and December 8, 2014 |
| Banco Nacional de Desarrollo Económico y Social de Brasil (B.N.D.E | Fixed 3.84% | US$ | Maturing on March 19, 2023 |

(Continued)

(1) BCR-Telecommunications Building Trust:

The amount corresponding to this trust relates to the liability arising from the Securitization Trust to acquire the property known as “Centro Empresarial La Sabana” and office furniture and equipment disclosed in note 6 “Other operating assets under finance lease agreements”.

As of December 31, 2014, new operations and the most significant disbursements are as follows:

(2) Supplier credit:

This is a type of financing called “Supplier credit” whereby the contractor or supplier of goods and/or services grants financing, offered as such in its proposal for the tender in which it is participating.

The Telecom segment entered into a loan with the following characteristics:

**ECI Telecom No. 4:** In September 2014, a disbursement was made in the amount of US$3.6 (in millions), equivalent to ¢1,825, for network equipment installation services. This financing is for a 5-year term and bears interest at 4.95% per annum.

(3) CABEI:

As of December 2014, disbursements amount to US$138 (in millions), equivalent to ¢69,520, bearing interest at rates ranging between 4.69% and 6.4% per annum, for 15-to-20 year terms.

(4) IDB:

As of December 2014, disbursements amount to US$77 (in millions), equivalent to ¢38,701, bearing annual variable interest rates, for a 25-year term.

(5) Scotiabank:

In December 2014, disbursements were made in the amount of US$90 (in millions), equivalent to ¢48,800, bearing interest at rates ranging between 1.26% and 5.60% per annum, for terms that range between 20 days and 7 years (see note 42).

(6) Global Bank Corporation:

In December 2014, a disbursement is made in the amount of US$20 (in millions), equivalent to ¢10,844, bearing interest at 1.25% per annum, for a 20-day term (see note 42).

(7) National Bank for Economic and Social Development of Brazil (BNDES):

In March 2013, a loan agreement is subscribed with BNDES in the amount of US$44 million, bearing fixed interest at 3.84% per annum, for a 10-year term.

Disbursements made in 2014 amount to approximately ¢5,612.

(8) Banco Nacional de Costa Rica (BNCR):

In September and October 2013, loan agreements were subscribed with BNCR in the amount of US$49.6 (in millions), bearing variable interest, for 20 to 30 year terms.

Disbursements made in 2014 amount to approximately ¢10,460.

(9) Ministry of Finance:

In December 2013, a payment agreement is subscribed with the Ministry of Finance in the amount of ¢7,043, bearing variable interest, for a 10-year term.

*Las Pailas II Geothermal Power Project Loan Agreement*

In August 2014, a loan agreement was subscribed between ICE and JICA in the amount of ¥16,810 (in millions), bearing annual variable interest, for a maximum term of 40 years. No disbursements are made as of December 2014.

Financial covenants:

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

Some of the loan agreements include the following clauses:

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

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

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

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

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

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

(Continued)

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

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

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

As of December 31, 2014, financial covenants in connection with loan agreements met the established limits.

*Noncompliance with the terms and conditions of loan agreements - CAF*

As a result of the steps taken by ICE in September 2013 and through a letter dated October 18, 2013 responding to the request for authorization to acquire a company dedicated to providing cable television services, CAF also notified the waiver of noncompliance as of June 30, 2013 with clause 6.01 “Affirmative covenant” established in the loan agreement subscribed in April 2008 for a total of US$100 (in millions), requiring a EBITDA/debt service ratio equal to 1.6 times (ICE’s ratio located at 1.0 times).

The waiver of noncompliance as of June 30, 2013 with the aforementioned financial ratio established in Clause 6.01 “Affirmative covenants” of the loan agreement for US$100 (in millions), subscribed by ICE and CAF in 2008 was authorized by CAF for a 90-day term from October 18, 2013 to January 16, 2014, thereby also waiving noncompliance as of December 31, 2013.

(Continued)

*(In millions of colones)*

**Note 21. Accounts payable**

Accounts payable are as follows:

| | | As of December 31, 2014 | 2013 (Restated)* |
|---|---|---|---|
| Materials suppliers | ¢ | 35,022 | 106,580 |
| Taxes | | 16,015 | 15,671 |
| Payroll and employee withholdings | | 6,664 | 7,611 |
| Other creditors | | 33,104 | 39,141 |
| **Total ICE Group** | | **90,805** | **169,003** |
| | | | |
| **Less reclassification of long-term portion** | **¢** | **(6,048)** | **(27,168)** |
| **Short-term** | **¢** | **84,757** | **141,835** |

* See note 25.

**Note 22. Prepaid income**

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

| **Prepaid income** | | **As of December 31, 2014** | | **2013** | |
|---|---|---|---|---|---|
| | | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| Prepaid mobile services (1) | ¢ | - | 7,760 | - | 7,387 |
| Government grants (2) | | 4,517 | 304 | 4,800 | 304 |
| Transfer in Property Spare Parts - Materials (3) | | - | 8,456 | - | - |
| Other | | - | 2,076 | - | 333 |
| **Total ICE Group** | **¢** | **4,517** | **18,596** | **4,800** | **8,024** |

The nature of the main prepaid income booked by ICE Group is described as follows:

(1) Prepaid mobile services:

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

(2) Government grants:

Within the framework of the Japanese initiative known as Cool Earth Partnership, the Government of Japan donated ICE an amount of approximately US$10.5 to build the Photovoltaic System located in Sabana Norte, with a power output of 3 kW, which is expected to generate 3.5 Kh, and the Miravalles Solar Park, located in La Fortuna de Bagaces, with a power output of 1 MW, which is expected to generate 1.2 GWh. Local or international government grants are recognized by ICE Group in the consolidated balance sheet when they are granted, and they are transferred to the consolidated statement of profit or loss systematically according to the useful life of the asset related to the grant received.

(3) Transfer of spare parts and materials:

This transfer in favor of ICE Group corresponds to costs related to spare parts, assets, and tools required for maintenance of Toro 3 and Garabito Power Plants, on which ICE Group made no expenditure. This income is realized in the consolidated statement of profit or loss when the contractually established maintenance services are rendered and inventories ceded to ICE are used.

*(In millions of colones)*

**Note 23. Accrued expenses for employer obligations**

Accrued expenses for employer obligations are as follows:

| | | As of December 31, 2014 | 2013 |
|---|---|---|---|
| Back-to-school bonus | ¢ | 21,702 | 21,034 |
| Vacations | | 14,568 | 14,661 |
| Statutory Christmas bonus | | 2,141 | 1,780 |
| Work mobility compensation | | 2,990 | - |
| **Total ICE Group** | **¢** | **41,401** | **37,475** |

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

| | | Statutory Christmas bonus | Back-to-school bonus | Vacations | Third biweekly and fifth | Work mobility compensation | Total |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| Opening balance | ¢ | 1,780 | 21,034 | 14,661 | - | - | 37,475 |
| Expensed - investments | | 9,843 | 3,610 | 11,187 | 9,841 | 2,990 | 37,471 |
| Expensed - operations | | 19,475 | 18,559 | 21,171 | - | - | 59,205 |
| Used | | (28,957) | (21,501) | (32,451) | (9,841) | - | (92,750) |
| **Total ICE Group** | **¢** | **2,141** | **21,702** | **14,568** | **-** | **2,990** | **41,401** |

| | | Statutory Christmas bonus | Back-to-school bonus | Vacations | Third biweekly and fifth | Work mobility compensation | Total |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Opening balance | ¢ | 1,927 | 20,158 | 18,015 | - | - | 40,100 |
| Expensed - investments | | 8,851 | 3,567 | 7,478 | 7,880 | - | 27,776 |
| Expensed - operations | | 17,896 | 18,433 | 16,506 | - | - | 52,835 |
| Used | | (26,894) | (21,124) | (27,338) | (7,880) | - | (83,236) |
| **Total ICE Group** | **¢** | **1,780** | **21,034** | **14,661** | **-** | **-** | **37,475** |

*(In millions of colones)*

## Note 24. Legal provisions

Legal provisions are as follows:

| Legal provisions | | As of December 31, 2014 | 2013 (Restated)* |
|---|---|---|---|
| Severance benefits | ¢ | 22,519 | 31,537 |
| Occupational hazards | | 7,893 | 5,756 |
| Provision for contingent liabilities | | 12,743 | 17,074 |
| Employee Protection Law | | - | 197 |
| Cash shortages and cash accounts | | 7 | 6 |
| Other provisions | | 101 | 201 |
| **Total ICE Group** | **¢** | **43,263** | **54,771** |
| **Less: current portion** | | **(10,000)** | **(12,740)** |
| **Long-term legal provisions** | | **33,263** | **42,031** |

* See note 25.

The movement in legal provisions is as follows:

| Legal provisions | | Severance benefits | Occupational hazards | Provision for contingent liabilities | Employee Protection Law | Cash shortages and cash accounts | Other provisions | Total |
|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | |
| Opening balance | ¢ | 31,537 | 5,756 | 17,074 | 197 | 6 | 201 | 54,771 |
| Expensed - investment | | 9,178 | 4,770 | 5,189 | 568 | 14 | - | 19,719 |
| Expensed - investment | | 16,017 | - | 3,854 | - | - | - | 19,871 |
| Used | | (34,213) | (2,633) | (6,331) | (765) | (13) | (100) | (44,055) |
| Transfers | | - | - | (7,043) | - | - | | (7,043) |
| **Total ICE Group** | **¢** | **22,519** | **7,893** | **12,743** | **-** | **7** | **101** | **43,263** |

| Legal provisions | | Severance benefits | Occupational hazards | Provision for contingent liabilities | Employee Protection Law | Cash shortages and cash accounts | Other provisions | Total |
|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | |
| Opening balance | ¢ | 30,149 | 5,841 | 17,347 | 184 | 7 | - | 53,528 |
| Amount at the time of acquisition - CABLE VISIÓN | | 56 | - | | - | - | 85 | 141 |
| Expensed - investment | | 9,076 | 4,314 | 2,501 | 1,910 | 13 | 116 | 17,930 |
| Expensed - operation | | 15,094 | - | 1,038 | - | - | - | 16,132 |
| Used | | (22,838) | (4,399) | (3,812) | (1,897) | (14) | - | (32,960) |
| **Total ICE Group** | **¢** | **31,537** | **5,756** | **17,074** | **197** | **6** | **201** | **54,771** |

*(In millions of colones)*

## Note 25. Retrospective adjustments

For the year ended December 31, 2014, the figures as of December 31, 2013 and for the year then ended were restated due to a number of adjustments with retroactive effect and changes in the accounting policies (see note 2(e)). Retrospective adjustments applied to ICE Group figures as a result of the above are as follows:

| | Operating assets - revaluation (note 4) | Accumulated depreciation of operating assets - revaluation (note 4) | Other operating assets - cost (note 4) | Other operating assets - revaluation (note 4) | Accumulated depreciation of other operating assets - revaluation (note 4) | Other operating assets under finance lease agreements - revaluation (note 4) | Accumulated depreciation of other operating assets under finance lease agreements - | Construction work in progress (note 5) | Materials in transit for investment (note 5) | Material and equipment held in custody (note 11) | Materials in transit for operation (note 11) | Account payable - short-term liability (note 21) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Balances as of December 31, 2013, previously reported* | ¢ 2,528,062 | (1,481,425) | 417,691 | 101,816 | (66,694) | 3,235 | (182) | 763,538 | 117,705 | 2,893 | 19,357 | 142,136 |
| **Accumulated effect of changes in accounting policies and adjustments prior to 2013:** | | | | | | | | | | | | |
| Change in accounting policy, revaluation of operating assets (1) | (6,689) | 5,621 | - | (41,102) | 33,901 | (94) | 14 | - | - | | - | - |
| Adjustment of balances in import purchase orders (2) | - | - | | - | - | - | - | 58 | (2,811) | | (344) | 225 |
| Adjustment to eliminate profit related to ICE invoices in the Balsa Inferior Hydroelectric Power Project (3) | - | - | | - | - | - | - | (2,757) | - | - | - | - |
| Booking of provision for notices of deficiency (4) | - | - | - | - | - | - | - | - | - | - | - | - |
| Adjustment for reconciliation of mobile terminals from prior periods (6) | - | - | - | - | - | - | - | - | - | 615 | (6,813) | - |
| *Total effect of changes in accounting policies and* | (6,689) | 5,621 | - | (41,102) | 33,901 | (94) | 14 | (2,699) | (2,811) | 615 | (7,157) | 225 |
| **Accumulated effect of changes in accounting policies and adjustments in 2013:** | | | | | | | | | | | | |
| Change in accounting policy, revaluation of operating assets (1) | 587 | (344) | - | (4,712) | 3,984 | (35) | 20 | - | - | | - | - |
| Adjustment of balances in import purchase orders (2) | - | - | | - | - | - | - | 99 | (899) | | (297) | (526) |
| Adjustment to eliminate profit related to ICE invoices in the Balsa Inferior Hydroelectric Power Project (3) | - | - | | - | - | - | - | (2,393) | - | - | - | - |
| Booking of provision for notices of deficiency (4) | - | - | - | - | - | - | - | - | - | - | - | - |
| Adjustment of account balances in materials in transit. (5) | - | - | 444 | - | - | - | - | 19 | (3,705) | - | (54) | - |
| Adjustment for reconciliation of mobile terminals from prior periods (6) | - | - | - | - | - | - | - | - | - | (59) | (923) | - |
| *Total effect of changes in accounting policies and adjustments in 2013* | 587 | (344) | 444 | (4,712) | 3,984 | (35) | 20 | (2,275) | (4,604) | (59) | (1,273) | (526) |
| *Subtotal reclassifications* | (6,102) | 5,277 | 444 | (45,814) | 37,885 | (129) | 34 | (4,974) | (7,415) | 556 | (8,430) | (301) |
| *Balances as of December 31, 2013, adjusted* | 2,521,960 | (1,476,148) | 418,135 | 56,002 | (28,809) | 3,106 | (148) | 758,564 | 110,290 | 3,449 | 10,927 | 141,835 |

(Continued)

# INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

## Notes to Consolidated Financial Statements
*(In millions of colones)*

| | Short-term liability - legal provisions (note 24) | Development reserves | Asset revaluation reserves | Retained earnings | Operation and maintenance (note 28) | Depreciation expense - operating assets | Marketing expenses (note 32) | Preinvestment studies (note 33) | Other operating expenses (note 35) | Other income - foreign exchange differences (note 36) | Other income (note 36) | Other expenses - foreign exchange differences | Other expenses | Surplus before income tax and interest |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Balances as of December 31, 2013, previously reported* | ¢ 1,000 | 1,683,952 | 1,092,893 | 92,459 | 255,822 | 243,868 | 241,197 | 5,703 | 10,585 | 41,597 | 52,945 | 7,389 | 39,558 | 33,801 |
| **Accumulated effect of changes in accounting policies and adjustments prior to 2013:** | | | | | | | | | | | | | | |
| Change in accounting policy, revaluation of operating assets (1) | - | - | (8,348) | | - | - | - | - | - | - | - | - | - | - |
| Adjustment of balances in import purchase orders (2) | - | (3,322) | - | - | - | - | - | - | - | - | - | - | - | - |
| Adjustment to eliminate profit related to ICE invoices in the Balsa Inferior Hydroelectric Power Project (3) | - | (4,382) | - | 1,625 | - | - | - | - | - | - | - | - | - | - |
| Booking of provision for notices of deficiency (4) | 10,702 | - | - | (10,702) | - | - | - | - | - | - | - | - | - | - |
| Adjustment for reconciliation of mobile terminals from prior periods (6) | - | (6,198) | - | - | - | - | | - | - | - | - | - | - | - |
| *Total effect of changes in accounting policies and* | 10,702 | (13,902) | (8,348) | (9,077) | - | - | - | - | - | - | - | - | - | - |
| **Accumulated effect of changes in accounting policies and adjustments in 2013:** | | | | | | | | | | | | | | |
| Change in accounting policy, revaluation of operating assets (1) | - | - | (502) | | - | (130) | - | - | - | - | - | - | - | 129 |
| Adjustment of balances in import purchase orders (2) | - | (570) | - | - | 359 | | - | - | 696 | 313 | 424 | 254 | - | (571) |
| Adjustment to eliminate profit related to ICE invoices in the Balsa Inferior Hydroelectric Power Project (3) | - | (2,393) | - | - | - | - | - | - | - | - | - | - | - | - |
| Booking of provision for notices of deficiency (4) | 1,038 | - | - | (1,038) | - | - | - | - | - | - | - | - | 1,038 | (1,038) |
| Adjustment of account balances in materials in transit. (5) | - | (3,296) | - | - | - | | - | 5 | - | - | - | - | - | (5) |
| Adjustment for reconciliation of mobile terminals from prior periods (6) | - | (982) | - | - | 7 | - | 982 | - | - | - | - | - | - | (989) |
| *Total effect of changes in accounting policies and adjustments in 2013* | 1,038 | (7,240) | (502) | (1,038) | 366 | (130) | 982 | 5 | 696 | 313 | 424 | 254 | 1,038 | (2,474) |
| *Subtotal reclassifications* | 11,740 | (21,142) | (8,850) | (10,115) | 366 | (130) | 982 | 5 | 696 | 313 | 424 | 254 | 1,038 | (2,474) |
| *Balances as of December 31, 2013, adjusted* | 12,740 | 1,662,810 | 1,084,043 | 82,344 | 256,188 | 243,738 | 242,179 | 5,708 | 11,281 | 41,910 | 53,369 | 7,643 | 40,596 | 31,327 |

(Continued)

(1) Adjustment for revaluation of other operating assets

This adjustment arises from the change in the accounting policy related to other operating assets and other operating assets under finance lease agreements, except for land and buildings, by replacing the revaluation method (historical cost plus adjustments using a price index) with the historical cost method, reversing the value of previously booked revaluations. Because of the nature of such assets, they do not acquire goodwill over time; accordingly, it has been determined that the historical cost provides more relevant and reasonable information in the financial statements.

(2) Adjustment of import purchase orders

This adjustment was made to balances of import purchase orders and related accounts, such as materials in transit and customs clearance costs, etc.

(3) Adjustment to eliminate profits related to ICE invoices in CNFL's project

This adjustment was made to eliminate prior-period profits obtained by ICE related to the Balsa Inferior Hydroelectric Power Project.

(4) Booking of provision for notices of deficiency

This adjustment was made to create a provision for notices of deficiency issued by the Ministry of Finance and served to the subsidiary RACSA to collect taxes for internet services corresponding to the periods running from 2008 to 2013.

(5) Adjustment of balances

This adjustment was made to balances of "Materials in transit" accounts since, due to aging, it is impracticable to specifically identify construction work in progress, warehouse, or operation accounts where such balances should have been accounted for.

(6) Adjustments for reconciliation of mobile terminals

This adjustment for reconciliation of prior period (2010-2014) mobile terminals is related to requisitions and outflows of terminals pending booking.

*(In millions of colones)*

**Note 26. Memoranda accounts**

| | | As of December 31, 2014 | 2013 |
|---|---|---|---|
| **Guarantees received:** | | | |
| Performance bonds (1) | ¢ | 274,606 | 259,104 |
| Collection agentes (2) | | 3,289 | 3,181 |
| Bid bonds (3) | | 2,777 | 4,882 |
| Tenders | | 8 | 8 |
| Guaranty deposits | | 292 | 393 |
| **Subtotal** | | 280,972 | 267,568 |
| **Other guarantees received - Sundry services** | | 827 | 773 |
| **Guarantees issued to third parties - Surety** | | - | 815 |
| **Credit memoranda accounts - Other - Surety** | | 1,374 | - |
| **Contingent assets:** | | | |
| Savings and loan fund | | 29,066 | 32,422 |
| CNFL Employees Association (ASEFYL) | | 13,898 | 12,502 |
| Performance bonds - procurement | | 7,792 | 10,592 |
| Materials in transit | | 374 | 694 |
| Bid bonds | | - | 350 |
| Collection of electricity services | | 926 | 868 |
| Materials loan | | 127 | 592 |
| Employee guarantees | | 187 | 227 |
| Rental of posts | | 141 | 117 |
| Performance bonds - labor | | 95 | 83 |
| Guaranty deposits (electricity consumption) | | 138 | 123 |
| ICE easement - Cote Plant | | 7 | 7 |
| Valle Central Wind Power Plant | | 79 | - |
| **Subtotal** | | 52,830 | 58,577 |
| **Contingent liabilities:** | | | |
| Payment arrangement - financing of appliances | | 22 | 22 |
| **Total ICE Group** | ¢ | **336,025** | **327,755** |

(1) Performance bonds

Performance bonds correspond to bonds issued to guarantee that the goods and services offered by a supplier will be delivered or rendered to ICE in accordance with the agreed terms and that, in the event of noncompliance, ICE will be compensated. The main bonds are as follows:

*ICE-JASEC surety*

ICE and JASEC subscribed a business partnership agreement for the joint construction of the Toro 3 Hydroelectric Power Project. For this purpose, in a meeting held on April 26, 2010, the Board of Directors of ICE authorized the provision of the joint and several surety bond to JASEC for a maximum amount of US$30 (in millions), plus interest derived from the investment's principal until maturity.

On February 22, 2012, the Board of Directors of ICE unanimously authorized the provision of the joint and several surety bond to the Toro 3 Hydroelectric Power Project Trust for a maximum amount of US$180 (in millions), plus finance charges derived therefrom until settlement (maximum term of 3 years).

On October 28, 2013, the principal and interest related to the loan granted for the Toro 3 trust were paid-off, releasing ICE's surety related thereto.

(2) Collection agents

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

(3) Bid bonds

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

(Continued)

(4) Other guarantees

*ICE-CNFL surety*

On May 4, 2006, ICE and KfW subscribed a security agreement whereby ICE acts as joint surety for the obligations contracted by CNFL as debtor under the aforementioned loan agreement.

On September 25, 2008, CNFL and KfW entered into a supplemental loan agreement in the amount of US$9.5 (in millions) to finance unforeseen expenses. The surety required for this loan agreement was posted by ICE, increasing the total amount of the surety to US$36 (in millions) (¢18,940). This surety is for a maximum term of 10 years. As of December 31, 2014 and 2013, balances owed by CNFL corresponding to this operation amount to ¢8,580 and ¢9,760, respectively.

**Note 27. Income from services**

**Regulation on Electricity Services**

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

On March 19, 2012, through Decision RJD-017-2012 published in Official Gazette No. 74 dated April 17, 2012, the Regulatory Committee published the methodology to the extraordinary adjustment of electricity rates related to fuel expenses, based on the CVC methodology. ARESEP applied this methodology since January 1, 2013.

This methodology allows for a faster recovery of the difference between the estimated and actual prices of fuels for thermal power generation because such methodology involves a quarterly review in order to perform the necessary adjustments to the rate schedules to be applied in the following quarter.

**Regulation on Telecom Services**

Article 50, "Prices and rates", of Law No. 8642 "General Telecommunications Law" dated May 14, 2008 states that "rates for public 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."

(Continued)

*(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 Official Gazette dated April 25, 2013, SUTEL excluded information services (multimedia messaging, text messaging, and video calling) from the current rate schedule, granting operators legal authority to review and adjust the rates applicable to such services.

## Note 28. Operation and maintenance costs

Operation and maintenance costs include among others costs related to fuel consumption to generate power by thermal power plants, as follows:

| | | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| **Thermal power plant:** | | | |
| Garabito | ¢ | 63,452 | 89,332 |
| Moín II | | 18,875 | 16,592 |
| Moín III | | 16,432 | 11,173 |
| Moín I | | 3,573 | 4,187 |
| Pujol - Pococí | | 3,297 | 3,106 |
| Pujol - Orotina | | 2,590 | 2,604 |
| Other | | 795 | 2,445 |
| **Total ICE Group** | ¢ | **109,014** | **129,439** |

Through Decision RIE-034-2014 dated June 27, 2014, ARESEP approved the recognition of the rate adjustments related to the difference between estimated and actual fuel expenses corresponding to February, March, and April in the amount of ¢37,167.

ARESEP upheld ICE’s request for quarterly recognition of ¢16,360 and ¢7,916 in the third and fourth quarters of 2014, respectively, and the remaining to be recognized quarterly in equal amounts in 2015. Based on such decision, as of December 31, 2014, ICE books the balance pending recovery through the rate adjustment as assets under “Prepaid expenses” in the amount of ¢12,891 (see note 12 (2)).

*(In millions of colones)*

**Note 29. <u>Operation and maintenance costs of leased equipment</u>**

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

| | | For the year ended December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| **ICE Group:** | | | |
| Thermal generation | ¢ | 96,912 | 123,016 |
| Hydraulic generation | | 26,522 | 23,424 |
| Wind generation | | 9,106 | 9,329 |
| Substations | | 6,693 | 6,784 |
| Transmission lines | | 3,192 | 3,243 |
| Telecom leases | | 3,637 | 29,321 |
| **Subtotal** | | **146,062** | **195,117** |
| *Eliminations of Government services | | 1,862 | 2,306 |
| **Total ICE Group** | ¢ | **144,200** | **192,811** |

* Government services are eliminated from the statements of profit or loss for presentation purposes.

In 2014, costs for the operating leases of the plants mentioned above amount to ¢68,905 (2013: ¢93,403), as follows:

As discussed in note 3(l), ICE follows the policy of booking and classifying lease agreements for telecommunications and transmission equipment and power plants as operating leases. As of December 31, 2012, operating lease agreements are 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 December 31, 2014 | Paid in 2014 | No. of installments | Amount of installment | Purchase option | | Expenses in 2014 | Expenses in 2013 | Frequency | Subject of the agreement |
| **ICE Group** | | | | | | | | | | | | | | | | | |
| 343012 | Huawei Technologies Consortium (1) | 10-Feb-09 | 25-Feb-10 | 26-Mar-15 | US $ | 233 | 233 | 0 | 0 | 20 | First phase: US$8; second phase: US$4 (in thousands) | 23 | ¢ | 108 | 22,755 | Quarterly | 3G wireless system |
| 1691 | Peñas Blancas Securitization Trust (2) | 16-Aug-00 | 31-Jan-08 | 16-Jul-15 | | 119 | 113 | 6 | 8 | 155 | Between US$875 and US$725 (in thousands) | 19 | | 4,233 | 4,225 | Monthly | Electricity infrastructure |
| N/A | Cariblanco Securitization Trust (2) | 3-Jul-03 | 29-Feb-08 | 31-Dec-19 | | 304 | 180 | 124 | 25 | 147 | 2 | 8 | | 12,646 | 12,621 | Monthly | Lease for Cariblanco Hydroelectric Power Plant |
| N/A | Garabito Thermal Project Trust (2) | 5-Nov-07 | 1-Jul-10 | 31-Mar-22 | | 743 | 282 | 460 | 63 | 142 | 5 | 213 | | 31,712 | 32,197 | Monthly | Lease for Garabito Thermal Power Plant |
| 333059 | Las Pailas Geothermal Power Plant (3) | 7-Mar-07 | 28-Mar-12 | 31-Dec-23 | | 240 | 51 | 189 | 18 | 24 | 8 | - | | 8,793 | 8,291 | Half-yearly | Lease for Las Pailas Geothermal Power Plant |
| 351643 | Administrative Board of Cartago's Electricity Service (JASEC) (4) | 14-Apr-10 | 4-Dec-13 | 14-Apr-22 | | 25 | 5 | 20 | 2 | 20 | Between US$ 1,637 and US$854 (in thousands) | - | | 901 | 947 | Half-yearly | Infrastructure for Tejar Step-Down Substation/Easements and expansion tower sites for Rio Macho - Transmission Line Project |
| N/A | Toro 3 Power Plant Trust (2) & (5) | 1-Jun-13 | 30-Jun-13 | 30-Nov-24 | | 131 | 16 | 115 | 9 | 137 | $1 | - | | 4,766 | 3,234 | Monthly | Lease for Toro 3 Power Plant |
| 323411 | ECI Telecom Consortium | 29-Sep-05 | 25-May-09 | 28-Feb-14 | | 32 | 31 | - | - | 20 | 2 | 3 | ¢ | - | 3,303 | Quarterly | Lease of fiber optic transport system equipment |
| **Subtotal - Operating leases - US$** | | | | | **US$** | **1,795** | **880** | **915** | **125** | | | | **¢** | **63,159** | **87,574** | | |
| General features of the agreement | | | | | In millions of colones | | | | | | | | | | | | |
| **ICE Group** | | | | | | | | | | | | | | | | | |
| 350702 | Cooperativa de Electrificación Rural Guanacaste (6) | 16-Feb-10 | 6-Apr-10 | 6-Sep-21 | ¢ | 87,848 | 28,739 | 59,108 | 5,746 | 138 | Between ¢617 and ¢473 | Approximately ¢3,541 | ¢ | 5,746 | 5,829 | Monthly | Infrastructure for electricity transmission line Liberia - Papagayo - Nuevo Colón |
| **Subtotal - Operating leases - colones** | | | | | **¢** | **87,848** | **28,739** | **59,108** | **5,746** | | | | **¢** | **5,746** | **5,829** | | |
| **Total - Operating leases -ICE Group** | | | | | | | | | | | | | **¢** | **68,905** | **93,403** | | |

***Source :*** Financial-Liquidity Management Process

(Continued)

The main operating lease agreements held by ICE Group are described as follows:

(1) Huawei Technologies Consortium

This agreement corresponds to the lease of a third-generation wireless network called "Advanced Mobile System Project".

On December 9, 2013, ICE partially exercised the purchase option provided for in the lease agreement subscribed by ICE and the CABEI-Huawei Consortium. The total paid for the project's first and second phases amounts to US$30.6 (in millions) and US$21.8 (in millions), respectively (equivalent to ¢15,395 and ¢10,952, respectively). In 2014, ICE paid the remaining balance of such lease, which is considered to be fully settled as of December 2014.

(2) Securitization Trusts

ICE, BCR, and Banco Nacional de Costa Rica subscribed Securitization Trust agreements whereby ICE acts as the trustor and beneficiary and the corresponding Banks are named as the trustees. The purpose of the agreements is the independent generation and management of the necessary financial resources to build the Peñas Blancas, Cariblanco, and Toro 3 Hydroelectric Power Plants, and the Garabito Thermal Power Project.

The trusts may obtain those resources by acquiring commercial loans and by issuing, placing, and managing securities through securitization. Currently, the trusts are authorized to issue public debt and have liabilities booked therefor in their financial statements as of September 30, 2014 and 2013.

The trusts contract ICE to build the aforementioned plants given its experience in the development of this type of projects. In their capacity as owners, the trusts lease the plants to ICE for terms ranging between 11 and 13 years. At the end of the lease terms, ICE may exercise the purchase option established in each lease agreement.

The main clauses of the trust agreements are summarized below:

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

- Trust assets will be comprised of the following:

    a) The liquid assets generated by the trusts from the issue and placement of debt securities.
    b) The trustor's movable property and tangible and intangibles assets (deemed essential to the agreement's purposes) transferred in trust; civil works; equipment; facilities; repair shops; vehicles; equipment and materials; office and computer equipment (including software, licenses, and other assets acquired with trust funds to develop the projects and operate and provide maintenance to the plants); rights to use the land owned by the trustor required to develop the projects; and all written information and studies conducted for and during the development of works managed by the trusts.
    c) The agreed-upon income from the lease of power plants.
    d) Any other income obtained by the trusts in the normal course of business.

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

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

- The trustor will appoint the Manager of the Executing Unit, who must be accepted by the trustee (the Manager's hierarchical superior), with all the corresponding rights and responsibilities.

- The trustor and trustee agree that ICE will be contracted by the trust through a construction and engineering agreement to undertake construction of the projects.

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

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

(3) Las Pailas Geothermal Power Plant

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

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

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

- The lease will be for a term of 12 years with an option to purchase the Las Pailas Geothermal Power Plant, starting from the date of satisfactory receipt of the plant by ICE.
- The total amount of the lease is US$240 (in millions), including lease installments and maintenance fees.
- At the end of the lease term, the amount of the purchase option will be equivalent to 15% of the total cumulative investment made at the end of the construction phase.
- CABEI will make an investment of up to US$130 (in millions) in construction of the plant.
- CABEI agrees that ICE will carry out construction of the entire plant and its interconnection to the National Interconnected System. The total cumulative investment at the end of the construction phase will have been made in U.S. dollars, comprised of the following:

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

(Continued)

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

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

- Should ICE 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 may exercise the purchase option prior to expiration of the agreement for an amount equivalent to CABEI's investment not yet recovered.

(4) Tejar Step-down Substation - JASEC

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

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

(5) Toro 3 Hydroelectric Power Project

ICE and JASEC subscribed a partnership agreement for the joint development of the Toro 3 Hydroelectric Power Project, whereby BCR acts as the trustee and ICE and JASEC as trustors.

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

The partnership agreement subscribed by those entities involves equal participation in respect of rights and obligations and benefits derived from the construction and commercial exploitation of the Toro 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%).

(6) Cooperativa de Electrificación Rural Guanacaste, R.L. (Coopeguanacaste)

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

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

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

*(In millions of colones)*

## Note 30. Supplemental services and purchases

Supplemental services and purchases are as follows:

| | | For the year ended December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| **ICE Telecom:** | | | |
| Phone-in | ¢ | 10,416 | 13,736 |
| Traffic from local operators | | 19,561 | 16,491 |
| Other | | 2,803 | 2,456 |
| **Total ICE Telecom** | | **32,780** | **32,683** |
| **ICE Electricity:** | | | |
| ***Import:*** | | | |
| Ente Operador Regional (EOR) | | 4,695 | 2,294 |
| Poliwatt | | 1,357 | 605 |
| Mercado Eléctrico de El Salvador | | 2,222 | 915 |
| Other | | 2,732 | 2,967 |
| **Subtotal import** | | **11,006** | **6,781** |
| ***Independent power producers:*** (1) | | | |
| Planta Eólica Guanacaste, S.A. (BOT Agreement) | | 8,562 | 7,339 |
| Unión Fenosa Generadora La Joya (BOT Agreement) | | 8,345 | 9,452 |
| Geoenergía de Guanacaste Ltda. (BOT Agreement) | | 8,311 | 7,710 |
| Hidroenergía del General (HDG), S.R.L. (BOT Agreement) | | 7,360 | 7,609 |
| Hidroeléctrica Doña Julia | | 3,751 | 3,245 |
| Chiripa Wind Consortium (BOT Agreement) | | 3,211 | - |
| Plantas Eólicas, S.A. | | 3,171 | 2,489 |
| Molinos de Viento del Arenal, S.A. | | 2,934 | 2,468 |
| Hidroeléctrica Platanar, S.A. | | 2,669 | 2,711 |
| Azúcares el Viejo S.A. | | 2,269 | 1,527 |
| Proyecto Hidroeléctrico Río Volcán, S.A. | | 2,231 | 1,877 |
| Hidroeléctrica Aguas Zarcas, S.A. | | 1,833 | 2,105 |
| Ingenio Taboga, S.A. | | 1,813 | 1,827 |
| Proyecto Hidroeléctrico Pedro, S.A. | | 1,806 | 1,691 |
| Hidroeléctrica Río Lajas, S.A. | | 1,754 | 2,345 |
| Other | | 5,727 | 5,298 |
| **Subtotal independent power producers** | | **65,747** | **59,693** |
| ***Export:*** | | | |
| Ente Operador Regional (EOR) | | 10,200 | 10,252 |
| **Total ICE Electricity** | | **86,953** | **76,726** |
| **Total ICE Group** | ¢ | **119,733** | **109,409** |

(Continued)

(1) Independent power producers

ICE executed agreements with several independent power producers for the purchase of electric power pursuant to Law No. 7200 "Law Authorizing the Autonomous or Parallel Generation of Electricity", which declares the purchase of electricity by ICE from private companies that meet the conditions established in that Law to be a matter of public interest. This Law provides for two systems or chapters: Chapter I, "Autonomous or Parallel Generation", and Chapter II, "Purchase of Power under the Competition System", which give rise to BOO (Build, Own and Operate) and BOT (Build, Operate, and Transfer) agreements, respectively.

As of December 31, 2014, ICE has subscribed power purchase agreements under Chapter II that correspond to BOT (Built, Operate, and Transfer) agreements with the following independent power producers: Geoenergía de Guanacaste, S.R.L.; Unión Fenosa Generadora La Joya; Hidroenergía del General (HdG), S.R.L.; Planta Eólica Guanacaste, S.A., and Consorcio Eólico Chiripa, S.A. Additionally, the Chucás and Capulín Hydroelectric Power Projects and the Wind Power Project are in the construction phase. During the life of the agreements, those independent power producers must build, operate, and provide maintenance to the corresponding plants. The power generated will be sold exclusively to ICE. At the end of the term of those agreements, the ownership, management, and operation of the plants will be automatically transferred to ICE, free of any liens and encumbrances. The corresponding independent power producers or ICE may request the early transfer of the power plants.

Some of the most significant terms and conditions established in the aforementioned agreements are as follows:

- The independent power producers will be responsible for the financing, design, purchase of supplies, construction, tests, start-up of operations, and maintenance of the plants. The independent power producers also agree to deliver all the power generated during the term of the agreement subscribed with ICE.

- The independent power producers will generate electric power in accordance with the operating quality and standards established in each agreement and will deliver all the power generated to ICE, except for the power required to feed the auxiliary equipment and operate the plants, in accordance with the agreements.

(Continued)

- The independent power producers assume the risks of damages to, loss, or destruction of equipment and facilities during the term of the agreements due to any reason or cause that is directly attributable to the independent power producer, its contractors, subcontractors, or suppliers, excluding force majeure.

- The purchase price for electricity generated is established in each agreement based on the bid price and the price awarded in the corresponding tender processes. The agreements include formulas for price adjustments corresponding to inflation rates that are applied to operating and maintenance costs.

Once the plants launch commercial operations, the independent power producers must obtain and maintain, at their own expense, a minimum of the following insurance policies, based on market availability: occupational hazard and all-risk insurance for physical loss.

ICE may suspend the delivery of energy from the independent power producers and shall be released from payment for such power during the suspension period for the following reasons:

- Alteration of meters;
- Noncompliance in relation to a condition at the point of delivery that is the responsibility of the independent power producer;
- The inability of the independent power producer to supply power in accordance with the stipulated operating parameters;
- Failure to renew performance bonds;
- Failure to renew insurance policies.

The agreements are in effect for terms that range between 15 and 20 years and expire between March 2016 and October 2033.

For independent power producers who have subscribed agreements under Chapter I of Law No. 7200, the following three types of agreements are in effect:

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

The general terms of these agreements establish that, during the life of the agreement, ICE will purchase any surplus electric power that the independent power producer may supply once its own energy needs are met, up to the maximum power output agreed. The independent power producer commits to operate the plant so that the power output delivered to ICE at the point of measurement does not exceed the power output agreed. ICE will not make any payments for the power delivered by the independent power producer exceeding of the maximum power output agreed. Electricity received in light of these agreements is paid at the rates in effect set by ARESEP upon delivery.

Since enactment of Law No. 7200 in 1990, ICE subscribed agreements in accordance with Chapter I of that Law. Starting 2009, after the expiration of the agreements subscribed in the 1990s, for which the maximum maturity terms were 15 years, ICE renewed such agreements for the remaining term of the concession agreements (20 years). Currently, agreements are being renewed when companies are awarded concessions to use water for hydroelectric power generation and concessions awarded by ARESEP to offer public electric power generation services. Currently, agreements are subscribed with 25 companies, i.e. three wind power, two sugar refinery, and 20 hydroelectric power agreements.

Additionally, starting in 2012, once the rates for new plants were published by ARESEP and the new regulations to Chapter I of Law No. 7200 were also published, ICE started the process of selection of projects for which new agreements were to be signed. Through Meeting No. 01-2012 published in June 2012, five wind and six hydroelectric power projects were selected, of which only one agreement was signed with the wind power project known as TilaWind in Tilarán. This project is being tested and is expected to start-up operations in March 2015.

Meeting No. 02-214 was published in February 2014, and its result was confirmed on August 29 once general management rejected the appeal filed by one of the participants. Through this second meeting, 2 wind and 4 hydroelectric power projects were selected, of which one refused the selection.

In September 2014, through Decision ARESEP RIE 061-2014, the request for rate adjustments was approved in respect of expenses for imported electric power. Accordingly, the recognized expense for imported power will be amortized over 15 months starting October 1, 2014 (see note 12).

*(In millions of colones)*

**Note 31. Administrative expenses**

Administrative expenses are as follows:

| | | For the year ended December 31, 2014 | 2013 |
|---|---|---|---|
| **ICE Group:** | | | |
| Salaries | ¢ | 59,813 | 55,785 |
| Services | | 15,109 | 10,724 |
| Service centers | | 3,125 | 6,879 |
| Depreciation of other operating assets | | 2,286 | 6,139 |
| Current transfers | | 1,728 | 1,436 |
| Other | | 11,246 | 10,363 |
| **Subtotal** | | **93,307** | **91,326** |
| * Elimination of Government services | | 325 | 374 |
| **Total ICE Group** | ¢ | **92,982** | **90,952** |

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

*(In millions of colones)*

**Note 32. Marketing expenses**

Marketing expenses are as follows:

| | | For the year ended December 31, 2014 | 2013 *(Restated)** |
|---|---|---|---|
| **ICE Group:** | | | |
| Materials and supplies | ¢ | 63,764 | 48,355 |
| Services | | 54,808 | 55,721 |
| Salaries | | 69,690 | 65,278 |
| Service centers | | 41,458 | 42,674 |
| Current transfers | | 8,655 | 12,968 |
| Depreciation of other operating assets | | 4,111 | 4,089 |
| Other | | 19,465 | 14,675 |
| **Subtotal** | | **261,951** | **243,760** |
| ** Elimination of Government services | | 1,598 | 1,581 |
| **Total ICE Group** | ¢ | **260,353** | **242,179** |

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

* See note 25.

**Note 33. Preinvestment studies**

Costs incurred for preinvestment studies are as follows:

| | | For the year ended December 31, 2014 | 2013 *(Restated) ** |
|---|---|---|---|
| **ICE Group:** | | | |
| Ayil Hydroelectric Project (1) | ¢ | 4,006 | 1,599 |
| Savegre (2) | | 782 | 3,293 |
| Tejona II Hydroelectric Project | | 124 | - |
| Other | | 857 | 816 |
| **Total ICE Group** | ¢ | **5,769** | **5,708** |

* See note 25.

*(In millions of colones)*

(2) Ayil Hydroelectric Power Project

An agreement was subscribed with the indigenous communities in respect of the Ayil Hydroelectric Power Project, which will be located in the Cabécar indigenous territory in Bajo Chirripó, Matina, Limón, whereby a term of 3 years (from May 27, 2011 to May 27, 2014) is granted to perform project studies related to pioneer roads that require the construction of several bridges.

(3) Savegre study

In 2014, the Savegre Study incurred expenses for engineering and site feasibility studies and ancillary works related to the headrace tunnel and water intakes.

## Note 34. Preliminary studies

Preliminary studies are as follows:

| | | For the year ended December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| | | | ***(Restated) **** |
| **ICE Group:** | | | |
| Salaries | ¢ | 12,147 | 12,780 |
| Service centers | | 7,611 | 9,910 |
| Services | | 864 | 867 |
| Depreciation of other operating assets | | 411 | 456 |
| Current transfers | | 397 | 466 |
| Materials and supplies | | 207 | 289 |
| Other | | 1,576 | 647 |
| **Subtotal** | | **23,213** | **25,415** |
| ** Elimination of Government services | | 140 | 192 |
| **Total ICE Group** | ¢ | **23,073** | **25,223** |

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

*(In millions of colones)*

**Note 35. <u>Other operating expenses</u>**

Other expenses incurred by ICE to ensure the quality of the construction and operation of works owned by third parties are recognized as “Other operating expenses”. Additionally, this item includes subsequent mitigation and social compensation costs that exceed the amounts established in the Environmental Management Plan and were not included in the “Baseline” planned and controlled by ICE Group. Other operating expenses are as follows:

| | | For the year ended December 31, 2014 | 2013 *(Restated)** |
|---|---|---|---|
| **ICE Group:** | | | |
| Advanced mobile services | ¢ | 580 | 721 |
| Torito Hydroelectric Project | | 485 | 451 |
| Orosi Wind Project | | 467 | - |
| Chucas Hydroelectric Project | | 376 | 412 |
| Project Support Center (CAP) | | - | 4,953 |
| Management of service agreements | | - | 3,784 |
| Other | | 1,043 | 960 |
| **Total ICE Group** | **¢** | **2,951** | **11,281** |

* See note 25.

*(In millions of colones)*

**Note 36. <u>Other expenses and other income</u>**

Other expenses and other income are as follows:

| Other income | | For the year ended December 31, 2014 | 2013 (Restated)* |
|---|---|---|---|
| **ICE Group:** | | | |
| Construction services (1) | ¢ | 300,539 | 33,134 |
| Interest and other finance income (2) | | 24,539 | 20,508 |
| Foreign exchange differences (3) | | 24,030 | 41,910 |
| Investments in other companies | | 628 | - |
| Other income (4) | | 30,654 | 20,235 |
| **Total ICE Group** | ¢ | **380,390** | **115,787** |

| Other expenses | | For the year ended December 31, 2014 | 2013 (Restated)* |
|---|---|---|---|
| **ICE Group:** | | | |
| Agreements for civil and electromechanical works (1) | ¢ | 301,131 | 30,018 |
| Foreign exchange differences (3) | | 151,577 | 7,643 |
| Interest and other finance expenses (2) | | 95,111 | 100,880 |
| Other expenses | | 25,998 | 10,578 |
| **Total ICE Group** | ¢ | **573,817** | **149,119** |

* See note 25.

The main transactions are as follows:

(1) This item includes invoices for percentage of completion or completed works related to agreements subscribed for engineering, design, construction, or other specialized services provided to ICE by third parties for projects under construction, such as the Reventazón Hydroelectric Power Project. The costs related to these construction agreements are booked under “Agreements for civil and electromechanical works”.

(2) Interest includes income on external sector securities.

(3) As a result of foreign currency transactions, during the year ended as of December 31, 2014, a valuation is performed of assets and liabilities denominated in foreign currency that gives rise to the recognition of foreign exchange income and expenses in the amount of ¢24,030 and ¢151,577, respectively (2013: ¢41,910 and ¢7,643). Monetary assets and liabilities denominated in foreign currency are valued at the exchange rate of ¢542.22 (2013: ¢502.47).

(4) During the year ended December 31, 2014, ICE Group recognized gains on the following items:

- collection of compensation in the amount of ¢5,406
- collection of administrative penalties in the amount of ¢1,945
- adjustments to provisions for contingent liabilities in the net amount of ¢3,463
- steam supply in the amount of ¢1,337
- fines for late payment of electricity services in the amount of ¢2,405.

(5) During the year ended December 31, 2014, ICE Group recognized finance expenses mainly corresponding to interest on bank obligations and loans and fees and commissions on management of derivative financial instruments in the amount of ¢95,111 (2013: ¢100,880).

## Note 37. Tax regulations

(a) Tax obligations

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

(b) Income Tax

As a for-profit entity that obtains income from its activities, ICE is subject to payment of income tax. Article 17 of Executive Order No. 449 to create ICE states that "ICE's financial policy will be to reinvest its net profit from the sale of electric power and from any other sources in financing and executing national electrification plans and promoting the electric power industry."

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

Given that ICE must reinvest the total net profit it obtains, no taxable income is produced and, therefore, it has no income tax liability. However, the Costa Rican Internal Revenue Service normally imposes income tax withholdings that are subsequently applied as a credit to the sales tax liability.

According to the Law on Strengthening and Modernization of Public Telecommunication Companies (Law No. 8660), ICE and its subsidiaries will be subject to payment of income and sales tax, excluding income tax on the delivery of traditional basic telephone services, when they begin to act as operators or providers of 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 (see note 41).

ICE Group's subsidiaries are subject to payment of income tax pursuant to Law No. 7722, which specifically lists State-owned institutions subject to such tax. In accordance with an executive decree published in Official Gazette No. 185 dated September 23, 1999 and Law No.7722, income or benefits generated by entities from services provided and their economic and financial activities are to be included, whether exempt or not, under the provisions of prior laws.

Only the costs, expenses, investment reserves, and development funds that are necessary and relevant to production of that income are deductible.

For the subsidiaries, income tax includes current tax. Income tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rate in effect at the cut-off date. As of December 31, 2013 and 2012, deferred tax in respect of temporary differences is adjusted in ICE Group's consolidated financial statements due to the alignment of the subsidiaries' accounting policies with those of ICE Group.

(c) General sales tax

ICE Group also pays general sales tax pursuant to the General Sales Tax Law (Law No. 6826). This is a value-added tax on the sale of merchandise and certain services. For the sale of energy for residential electricity consumption, the tax rate is 5% on amounts consumed in excess of 250 kW per month versus 13% for commercial consumption and the provision of telecom services.

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

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

Article 39 of the General Telecommunications Law (Law No. 8642) creates a quasi-fiscal tax to finance the Fondo Nacional de Telecomunicaciones [National Telecommunications Fund] (FONATEL) to ensure compliance with the principles of universal access, universal service, and cooperation. Such quasi-fiscal tax is to be levied on gross income directly earned by operators of public telecom networks and providers of public telecom services who generate the taxable event by performing the aforementioned activities and receiving the specific benefit from State activities.

This tax is defined in an affidavit issued for periods of one calendar year. The affidavit must be filed by March 15 of each year and the tax is paid in four equal installments on the 15th 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.

(e) Red Tax on Mobile and Conventional Telephony Services to Finance the Costa Rican Red Cross (Law No. 8690)

This tax was created by Law No. 8690. The Red Tax corresponds to 1% of billings for telephone services starting at ¢5,000 in colones, not to exceed ¢500 in colones per telephone line. The tax will be adjusted in January of each year based on the national inflation rate determined by BCCR.

(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 a additional source of revenue for the operations and sustained growth of the Costa Rican Firefighter Department, a tax equivalent to 1.75% (one point seventy-five per cent) of the monthly billings for electricity consumption of subscribers.

(g) Customs taxes

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

(h) Other obligations

ICE Group is also an income tax withholding agent in accordance with the Income Tax Law. In this role, taxes are withheld from the taxpayer and ICE holds joint and several liability. Among its responsibilities as a withholding agent, ICE must withhold and pay the corresponding tax to the Tax Authorities on behalf of recipients of the following types of income:

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

## Note 38. Financial risk management

ICE Group is exposed to the following risks from financial instruments: credit risk (risk of economic loss derived from payment default by customers or counterparties), liquidity risk (entity's inability to meet obligations due to lack of liquidity), and market risk (currency, interest rate, and commodity risks). All these risks have an impact on the management of ICE Group; however, each risk is handled individually. For example, in the case of ICE, credit risk is regulated through the investment committee and in each segment; liquidity risk is managed by controlling treasury's cash flows; and market risk is hedged with financial derivatives and also transferred to customer's billing. As a result, risk exposure is controlled through the committees described below.

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

The Investment Committee approves the Investment Strategy document (which is reviewed on a yearly basis) and the Management Limits document for ICE'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.

(Continued)

The Institutional Risk Committee was created on August 26, 2011, which supports the Executive Office of the President. The main purpose of this Committee is to "enforce compliance at the Institutional level with the regulations in effect and continuous improvement of risk management". The Committee began to operate on October 4, 2011. ICE's new organizational structure eliminated some management and gave rise to a process of restructuring of Risk Committee members. Currently, the Committee identified through management's liaisons the level of strategic risks for purposes of institutional-level decision making and holds a strategic risk heat map that covers ICE.

Also, the Institutional Policy for Financial Risk and Financial Hedging Management entered into force on April 12, 2011. The purpose of the policy is to "standardize the management of institutional financial risks by minimizing the exposure to system or market risks in respect of financial operations, through effective management of financial risks using market opportunities and available financial instruments, in accordance with the Financial Risk Hedging Strategy."

Risk management policies and systems are revised annually to ensure that they reflect changes in market conditions and ICE Group's activities.

ICE Group follows the policy of mitigating exposures to the extent possible by leveraging market opportunities, purchasing hedges that are aligned with its strategic objectives.

The use of financial derivatives is in accordance with ICE Group's policies, which provide written principles on foreign currency, interest rate, and credit risks, the use of derivative and non-derivative financial instruments, and excess liquidity investment.

Each year, the Financial Corporate Division develops a financial risk map for ICE together with other ICE departments and management of the subsidiaries and follows-up on action plans. ICE Group's subsidiaries have designed and implemented a set of risk policies with the purpose of minimizing potential adverse effects on their financial performance.

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

(a) Credit risk

Credit risk represents the potential loss due to failure of a customer or counterparty to comply with the contractual terms of operations, mainly cash, cash equivalents, receivables, and investments.

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

In the case of CNFL, credit risk is the risk of default on principal and/or interest payments as a result of internal and external factors that negatively affect the realization of cash flows, operating results, and revenue outlooks. A shortage of liquidity is not expected to have a negative effect on the exposure to credit risk.

In the case of RACSA, credit risk is the failure to apply control policies and measures to manage the level of credit granted to its customers, which may jeopardize income and generate high financial losses as a result of bad debt. To mitigate this risk, RACSA applies customer quality controls through credit protectors and filters the portfolio of customers in arrears, developing customer profiles.

*(i)* *Accounts receivable*

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

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

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

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

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

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

Note 3 "Significant accounting policies" explains in detail the accounting policy for booking the allowance and the administrative and legal collection processes.

*(ii)* *Investments*

In the case of credit or counterparty risk, the ratings given to ICE Group's investments are monitored and tracked based on the Investment Strategy and risk profile determined by the Investment Committee.

Financial risks are identified for all financial operations related to financial instruments, such as: short-, medium-, and long-term financing and all aspects of treasury management, including lines of credit, bank letters of credit, buying and selling of currency, investments, issue of securities, raw material purchases, etc.

Investment guidelines are approved by the Board of Directors and the Financial Investment Policy Manual is approved by General Corporate Financial Management. That manual contains all regulations concerning issuers, instruments, and permitted sectors, as well as rules to be observed in respect of brokerage firms and custodians.

Currently, there is an agreement of the Board of Directors on ICE's maximum limit to operate financial derivatives in respect of liabilities.

*(iii)* *Impairment losses*

"Trade receivables" are aged as follows:

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Current | ¢ | 97,248 | 91,449 |
| Administrative and legal collections | | 42,344 | 36,590 |
| **Total ICE Group** | **¢** | **139,592** | **128,039** |

*(In millions of colones)*

The movement in the allowance for accounts receivable is as follows:

| | | As of December 31, | |
|---|---|---|---|
| | | **2014** | **2013** |
| Opening balance | ¢ | 32,917 | 35,616 |
| Allowance booked during the period | | (9,712) | (12,525) |
| Allowance used during the period | | 5,890 | 7,997 |
| Adjustments | | 1,572 | 1,829 |
| **Closing balance** | **¢** | **30,667** | **32,917** |

(b) Liquidity risk

Liquidity risk refers to potential losses as a result of an early or forced sale of assets at unusual discounts that prevent ICE from meeting its obligations, or because a position cannot be sold, bought, or hedged by purchasing an equal but opposite position.

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

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

Treasury management includes preparation of the projected cash flows based on the company's budget information and a weekly schedule that details daily cash inflows and outflows to visualize cash flow behavior and determine daily liquidity needs. As part of this process, to obtain more accurate information on payments, especially those having a strong impact on cash flows, the business units and other areas of ICE must send the programming of payments for a 12-month period in compliance with ICE's treasury policies. Another important input is data obtained from the Institutional Payment System, which furnish the exact amount and deadline of payments as established in the agreements.

Additionally, it is important to have inputs and coordination with business units regarding income behavior and with areas responsible for finance management to allow a better matching and, thus, optimize treasury management seeking a better and timely attention to payment obligations.

Liquidity is guaranteed by optimizing the payment cycle, first using no-cost sources and short-term lines of credit (if necessary). Treasury policies define payments to providers to be made once a week, with payment terms of a maximum of 30 days, except for commitments with fixed, unavoidable settlement dates, from the time the event originating the payment takes place and the invoice is presented. Also, policies establish that payments must be made by bank transfer, and payment orders must be processed through ICE's Payment System.

Lines of credit are part of the instruments used by management to finance needs for working capital, issue of bid and performance bonds, and opening and refinancing of letters of credit. Over the years, lines of credit have become one of the more often used short-term financing options.

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

(c) Market risk:

Market risk is the risk that changes in market prices, e.g. foreign exchange rates, interest rates, or share prices, will affect ICE Group's income or the value of the financial instruments it holds. The objective of risk management is to manage and control exposures to keep this risk within reasonable parameters while simultaneously optimizing return.

ICE acquires derivative financial instruments to manage part of its existing market risks. All hedging operations are valued according to the price provided by the issuer of the instrument. Hedge accounting is used for qualifying instruments to mitigate volatility in the market prices of the financial instruments that have an effect on profit or loss.

Derivative financial instruments are traded with first tier banks with which confidentiality agreements and other documentation to trade derivatives have been subscribed. Based on the Risk Strategy, ICE has elected to specifically manage derivatives for existing liabilities.

The following risks have been identified in financial operations: variations in local and foreign interest rates and foreign exchange rates, which affect cash flows, the value of instruments, etc. The entity currently holds 9 derivative financial instruments: 4 to hedge interest rate risk, namely swaps; 1 to hedge against the yen/U.S. dollar fluctuations, known as a Cross Currency Swap; and 4 to hedge against the U.S. dollar/colon fluctuations, called Non-Deliverable Currency Swap.

(Continued)

*(In millions of colones)*

The general features of positions exposed to market risk that are being hedged with derivatives are presented in the following table:

| Detail | PR002 Tranche b | PPE017 Tranche b-1 | PR003 Tranche a | PR005 HSBC | PR004 yen | PR015 U.S. dollar/colon - 3 | PPE016 U.S. dollar/colon - 3 | PR013 U.S. dollar/colon - 7 | PR014 U.S. dollar/colon - 3 |
|---|---|---|---|---|---|---|---|---|---|
| Hedged debt | IDB-1931 B/OC-CR | IDB-1931 B/OC-CR | IDB-1931 A/OC-CR | Project to Expand Submarine Communication Cable Capacity | JIBC-CR-P3 | 2043 bonds | IDB-1908 | IDB-1908 | 2043 bonds |
| Principal amount | $105 | $105 | $128 | $4 | ¥5,608 | $50 | $40 | $40 | $20 |
| Hedged amount | $105 | $105 | $128 | $4 | $62 | ¢25,000 | ¢20,167 | ¢20,132 | ¢10,005 |
| Exchange rate | N/A | ¢532,85 | N/A | N/A | $91 | ¢500 | ¢504.17 | ¢503.30 | ¢500.259 |
| Contract date | 8-May-08 | 28-Apr-14 | 27-Jan-09 | 4-Nov-10 | 18-Jun-12 | 14-Nov-13 | 27-Jan-14 | 29-Mar-11 | 19-Jul-13 |
| Hedge inception date or first payment | 15-Aug-08 | 15-Aug-08 | 14-Jan-10 | 8-Nov-10 | 20-Oct-10 | 14-May-14 | 25-May-14 | 2-May-11 | 15-Nov-13 |
| Hedge maturity date | 15-Feb-18 | 15-Feb-18 | 14-Jul-23 | 8-Nov-15 | 20-Apr-26 | 14-Nov-16 | 25-Nov-16 | 2-Nov-17 | 16-May-16 |
| Term | 10 years | 4 years | 15 years | 5 years | 14 years | 3 years | 3 years | 7 years | 3 years |
| Base rate | 6M LIBOR | 6M LIBOR | 6M LIBOR | 3M LIBOR | 2.20% | 6.38% | 6M LIBOR | 6M LIBOR | 6M LIBOR |
| Spread over/under base rate | 3.00% | 5.75% | 3.23% | 4.95% | 5.11% | 13.89% | 9.08% | 2.95 pb | - |
| Variable rate | - | - | - | 0.95% | - | - | - | Base rate | 8.11% |
| Total fixed rate | 4.37% | 5.75% | 3.23% | 5.90% | 5.11% | 13.89% | 9.08% | Base rate +2,95 pb | 8.11% |
| Strategy | Hedge | Hedge | Hedge | Hedge | Hedge | Hedge | Hedge | Hedge | Hedge |
| Hedged risk | Interest rate | Interest rate | Interest rate | Interest rate | Yen/U.S. dollar exchange rate | U.S. dollar/colon exchange rate | U.S. dollar/colon exchange rate | U.S. dollar/colon exchange rate | U.S. dollar/colon exchange rate |
| Instrument | Interest rate swap | Interest rate swap | Interest rate swap | Interest rate swap | Cross currency swap | Non-deliverable currency swap | Non-deliverable currency swap | Non-deliverable currency swap | Non-deliverable currency swap |

(Continued)

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

| **In millions of colones** | | **Expected cash flows - derivatives** | **Less than 12 months** | **More than 12 months** |
|---|---|---|---|---|
| Forward staring swap | ¢ | 5,136 | 1,909 | 3,227 |
| Plain vanilla swap | | 4,315 | 2,157 | 2,158 |
| Swap | | 9 | 7 | 2 |
| Total | ¢ | 9,460 | 4,073 | 5,387 |

| **In millions of colones** | | **Expected cash flows - derivatives** | **Less than 12 months** | **More than 12 months** |
|---|---|---|---|---|
| IDB-1931A/OC-CR | ¢ | 65,676 | 7,727 | 57,950 |
| IDB-1931B/OC-CR | | 56,933 | 16,267 | 40,667 |
| Banistmo S.A. | | 2,169 | 2,169 | - |
| Total | ¢ | 124,778 | 26,163 | 98,617 |

Capital management

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

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

The policy is to maintain a strong capital base so as to maintain general market confidence and secure the future growth of ICE Group.

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

*(In millions of colones)*

In the fourth quarter of 2014, ICE Group's capital management remained unchanged and ICE Group was not subject to external capital requirements.

ICE Group's adjusted debt/equity ratio at the consolidated balance sheet date is as follows:

| **Debt-equity ratio** | | **As of December 31, 2014** | **2013 *(Restated)**** |
|---|---|---|---|
| **ICE** | | | |
| Total liabilities | ¢ | 2,496,412 | 2,435,988 |
| (-) Cash and cash equivalents | | (133,143) | (86,278) |
| Debt, net | | 2,363,269 | 2,349,710 |
| Total equity | | 3,006,242 | 2,895,849 |
| Less: | | | |
| Amounts accumulated in equity in respect of cash flow hedges | | (6,556) | (10,944) |
| Adjusted equity | | 3,012,798 | 2,906,793 |
| **ICE Group debt-equity ratio** | | **0.785** | **0.809** |

Exposure to credit risk

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

| **Carrying amount of financial assets** | | **As of December 31, 2014** | **2013 *(Restated)**** |
|---|---|---|---|
| Cash and cash equivalents | ¢ | 133,143 | 86,278 |
| Temporary investments, net | | 64,333 | 57,650 |
| Long-term investments | | 53,778 | 47,727 |
| Restricted funds | | 8,035 | 5,406 |
| Cash and cash equivalents | | 209,134 | 195,330 |
| **Total ICE** | **¢** | **468,423** | **392,391** |

*(In millions of colones)*

The maximum exposure to credit risk in respect of notes and accounts receivable at the date of the consolidated balance sheet by geographic region is as follows:

| **Geographic region** | | **As of December 31,** | |
|---|---|---|---|
| | | **2014** | **2013** |
| Costa Rica | ¢ | 203,776 | 189,540 |
| Other countries | | 5,358 | 5,790 |
| **Total ICE** | **¢** | **209,134** | **195,330** |

The maximum exposure to credit risk in respect of notes and accounts receivable at the date of the consolidated balance sheet by type of counterparty is as follows:

| **Type of counterparty** | | **As of December 31,** | |
|---|---|---|---|
| | | **2014** | **2013** |
| Private individuals or companies | ¢ | 100,306 | 97,361 |
| High-, medium-, and low-voltage customers | | 21,693 | 20,791 |
| Telephone administrations | | 2,316 | 1,562 |
| Distribution companies | | 9,774 | 8,448 |
| Others-Government | | 13,153 | 11,240 |
| Operators and service providers | | 5,254 | 5,790 |
| Street lighting system | | 919 | 904 |
| Other | | 55,719 | 49,234 |
| **Total ICE** | **¢** | **209,134** | **195,330** |

*(In millions of colones)*

Risk ratings for ICE Group reported as of December 31, 2014 are as follows:

| Issuer | Entry No./ISIN | Instrument | Risk rating |
|---|---|---|---|
| **ICE** | | | |
| Banco BAC San José, S.A. | 00BSJ00C36W0 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco BAC San José, S.A. | 00BSJ00C46W9 | Repurchase operation | F1+ (cri) |
| Banco BAC San José, S.A. | CRBSJ00B1640 | BSJ Bond | AAA (cri) |
| Banco BANSOL Banco de Soluciones | 00BASOLC05X8 | Term certificate of deposit (over the counter) | SCR2 |
| Banco BANSOL Banco de Soluciones | 00BASOLC40W7 | Term certificate of deposit (over the counter) | SCR2 |
| Banco BANSOL Banco de Soluciones | 00BASOLC67V2 | Term certificate of deposit (global bond) | SCR2 |
| Banco BCT | 00BCT00C54J3 | Term certificate of deposit (global bond) | SCR2+ |
| Banco BCT | 00BCT00C56J8 | Term certificate of deposit (global bond) | SCR2+ |
| Banco BCT | 00BCT00C57J6 | Term certificate of deposit (global bond) | SCR2+ |
| Banco BCT | CRBCT00B0143 | BCT Bond | SCR AAA |
| Banco Cathay | 00CATAYC5434 | Term certificate of deposit (global bond) | SCR2 |
| Banco Cathay | 00CATAYC5442 | Term certificate of deposit (global bond) | SCR2 |
| Banco Cathay | 00CATAYC5848 | Term certificate of deposit (global bond) | SCR2- |
| Banco Cathay | 00CATAYC5970 | Term certificate of deposit (global bond) | SCR2- |
| Central Bank of Costa Rica | CRBCCR0B3553 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0B3827 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0B3835 | Repurchase operation | BB |
| Central Bank of Costa Rica | CRBCCR0B4064 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0B4080 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0B4353 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0B4361 | Fixed-rate Monetary Stabilization Bond | BB |
| Central Bank of Costa Rica | CRBCCR0C4196 | Zero-coupon Monetary Stabilization Bond | BB |
| Banco Centroamericano de Integración Economica | CRBCIE0C0223 | Commercial paper (private) | F1+ (cri) |
| Banco Citibank (CMB Costa Rica) | 00CITIBC25D0 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Citibank (CMB Costa Rica) | 00CITIBC30D0 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C15J0 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C26J7 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C34K9 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C48K9 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C72J1 | Repurchase operation | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C73J9 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 00BCAC0C83K6 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | 0NR0ICE00416 | Term certificate of deposit (over the counter) | F1+ (cri) |
| Banco Crédito Agrícola de Cartago | CRBCAC0B1181 | BCAC Bond | AA+(cri) |
| Banco Crédito Agrícola de Cartago | CRBCAC0B1256 | BCAC Bond | AA+(cri) |
| Banco Crédito Agrícola de Cartago | CRBCAC0B1314 | BCAC Bond | AA+(cri) |
| Banco Crédito Agrícola de Cartago | CRBCAC0C1248 | Commercial paper | F1+ (cri) |
| Banco Davivienda (Costa Rica) S.A. | 00BDAVIC0314 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco de Costa Rica | 0NR0ICE00497 | Term certificate of deposit (over the counter, electronic, non- negotiable i | F1+ (cri) |
| Banco de Costa Rica | 0NR0ICE00498 | Term certificate of deposit (over the counter, electronic non-negotiable in | F1+ (cri) |
| Banco de Costa Rica | 0NR0ICE00499 | Term certificate of deposit (over the counter, electronic non-negotiable in | F1+ (cri) |
| Banco de Costa Rica | 0NR0ICE00508 | Term certificate of deposit (over the counter, electronic non-negotiable in | F1+ (cri) |
| Banco de Costa Rica | 0NR0ICE00509 | Term certificate of deposit (over the counter, electronic non-negotiable in | F1+ (cri) |
| Banco Hipotecario de la Vivienda -BANHVI- | 0NR0ICE00474 | Term certificate of deposit (over the counter, physical) | SCR AA+ |
| Banco Hipotecario de la Vivienda -BANHVI- | CRBANVIB0037 | Banhvi Bond | SCR AA+ |
| Banco Improsa | 00BIMPRC7713 | Term certificate of deposit (global bond) | SCR2 |
| Banco Improsa | 00BIMPRC7929 | Term certificate of deposit (global bond) | SCR2 |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00046 | Overnight deposit | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00051 | Overnight deposit | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00052 | Overnight deposit CLIPP | AA+(cri) |

(Continued)

*(In millions of colones)*

| | | | |
|---|---|---|---|
| Banco Internacional de C.R. -Miami- | 0NR0ICE00280 | Overnight deposit expansion of Cachí Hydroelectric Power Plant | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00358 | Overnight deposit IDB 2747 | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00375 | Overnight deposit BCIE 2109 Reventazón Hydroelectric Power Plant | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00503 | Term certificate of deposit (over the counter, electronic, non-negotiable ir | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00504 | Term certificate of deposit (over the counter, electronic, non-negotiable ir | AA+(cri) |
| Banco Internacional de C.R. -Miami- | 0NR0ICE00510 | Term certificate of deposit (over the counter, electronic, non-negotiable ir | AA+(cri) |
| Banco Lafise | 00BLAFIC46G6 | Term certificate of deposit (global bond) | SCR2 |
| Banco Lafise | 00BLAFIC68G0 | Term certificate of deposit (global bond) | SCR2 |
| Banco Lafise | 00BLAFIC75H3 | Term certificate of deposit (global bond) | SCR2 |
| Banco Nacional de Costa Rica | 00BNCR0C49S8 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00500 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00501 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00502 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00505 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00506 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | 0NR0ICE00507 | Short-term investment (over the counter, electronic) | F1+ (cri) |
| Banco Nacional de Costa Rica | CRBNCR0B1695 | BNCR Bond | AA+(cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CS146 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CT318 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CU142 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CV702 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CV934 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CV959 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CW114 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CW932 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CW981 | Repurchase operation | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 00BPDC0CX476 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | 0NR0ICE00393 | Term certificate of deposit (over the counter, electronic, non-negotiable ir | F1+ (cri) |
| Banco Popular y de Desarrollo Comunal | CRBPDC0B6947 | BPDC Bond | AA (cri)+ |
| Banco Popular y de Desarrollo Comunal | CRBPDC0B7069 | Repurchase operation | AA (cri)+ |
| Banco Scotiabank de Costa Rica, S.A. | 00SCOTICI350 | Term certificate of deposit (global bond) | F1+ (cri) |
| Banco Scotiabank de Costa Rica, S.A. | CRSCOTIB1235 | Scotiabank Bond | AAA (cri) |
| Compañía Nacional de Fuerza y Luz -CNFL- | CRCFLUZB0207 | CNFL Bond | AAA (cri) |
| Financiera Desyfin | 00FDESYC14Q3 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | 00FDESYC36R4 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | 00FDESYC53S7 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | 00FDESYC62Q2 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | 00FDESYC64P0 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | 00FDESYC72R9 | Term certificate of deposit (global bond) | SCR2 |
| Financiera Desyfin | CRFDESYB0218 | FDESY bond | SCRAA |
| Florida ICE & Farm Company S.A. | CRFIFCOB0972 | FIFCO bond | SCR AAA |
| Florida ICE & Farm Company S.A. | CRFIFCOB0998 | FIFCO bond | SCR AAA |
| Government | 0NR0ICE00496 | Zero-coupon central bank bond (over the counter) | BB |
| Government | 0NR0ICE00511 | Treasury note (over the counter electronic) | BB |
| Government | CRG0000B14H6 | Central bank bond | BB |
| Government | CRG0000B35G3 | Repurchase operation | BB |
| Government | CRG0000B51G0 | Repurchase operation | BB |
| Government | CRG0000B54G4 | Central bank bond | BB |
| Government | CRG0000B55G1 | Central bank bond | BB |
| Government | CRG0000B56G9 | Repurchase operation | BB |
| Government | CRG0000B58G5 | Repurchase operation | BB |
| Government | CRG0000B59G3 | Central bank bond | BB |
| Government | CRG0000B60G1 | Central bank bond | BB |
| Government | CRG0000B63G5 | Central bank bond | BB |

*(In millions of colones)*

| | | | |
|---|---|---|---|
| Government | CRG0000B64G3 | Central bank bond | BB |
| Government | CRG0000B70G0 | Repurchase operation | BB |
| Government | CRG0000B72G6 | Central bank bond | BB |
| Government | CRG0000B80G9 | Central bank bond | BB |
| Government | CRG0000B81G7 | Central bank bond | BB |
| Government | CRG0000B89G0 | Repurchase operation | BB |
| Government | CRG0000B92G4 | Central bank bond | BB |
| Government | CRG0000B97G3 | Central bank bond | BB |
| Government | CRG0000C21H9 | Zero-coupon Central Bank global bond | BB |
| Government | USP3699PAA59 | External debt bond - Costa Rica | BB |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCJ361 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCJ411 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCJ775 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCK039 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCK138 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | 00MADAPCK385 | Mortgage Participation Certificate | SCR2 |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | CRMADAPB2277 | MADAP bond | SCR AA + |
| Grupo Mutual Alajuela-La Vivienda de Ahorro y Prestamo | CRMADAPB2368 | MADAP bond | SCR AA + |
| La Nación S.A. | CRNACIOB0142 | La Nación, S.A. bond | SCR AA+ |
| La Nación S.A. | CRNACIOB0175 | La Nación, S.A. bond | SCR AA+ |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5305 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5347 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5792 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5800 | Repurchase operation | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5875 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC5917 | Repurchase operation | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC6014 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | 00MUCAPC6063 | Mortgage Participation Certificate | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | CRMUCAPB1383 | Repurchase operation | SCR2 |
| Mutual Cartago de Ahorro y Préstamo | CRMUCAPB1417 | Repurchase operation | SCR2 |
| Refinadora Costarricense de Petroleo | CRRECOPB0012 | RECOPE standardized bonds | AAA (cri) |
| Refinadora Costarricense de Petroleo | CRRECOPB0020 | RECOPE standardized bonds | AAA (cri) |
| SAFI BAC San José | SAJCPcFI | F.I. BAC San José liquid C, non-diversified | SCR AA+F2 |
| SAFI Banco de Costa Rica | BCRLIcFI | F.I. BCR short-term colones, non-diversified | SCR AA+F2 |
| SAFI Banco de Costa Rica | BCRLIcFI | F.I. BCR short-term colones, non-diversified | SCR AAF2 |
| SAFI Banco de Costa Rica | BCRMX¢FI | F.I. BCR mixed dollars, non-diversified | SCR AAF2 |
| SAFI Banco de Costa Rica | FI-000000022 | F.I. BCR liquidity dollars, non-diversified | SCR AA+F2 |
| SAFI Banco de Costa Rica | FI-000000022 | F.I. BCR liquidity dollars, non-diversified | SCR AA+F2 |
| SAFI Banco de Costa Rica | FI-000000066 | F.I. BCR mixed dollars, non-diversified | SCR AAF2 |
| SAFI Banco Nacional de Costa Rica | BNASUPER$FI | F.I. BN super fondo dollars, non-diversified | SCR AAF3 |
| SAFI Banco Nacional de Costa Rica | BNASUPERcFI | F.I. BN super fondo colones, non-diversified | SCR AAF2 |
| SAFI Banco Nacional de Costa Rica | FI-000000001 | F.I. BN diner fondo colones, non-diversified | SCR AA+F2 |
| SAFI Banco Nacional de Costa Rica | FI-000000002 | F.I. BN diner fondo dollars, non-diversified | SCR AAF3+ |
| SAFI Banco Popular | FI-000000006 | F.I. Popular money market (non-diversified) | SCR AAF3 |
| SAFI Banco Popular | FI-000000006 | F.I. Popular money market colones (non-diversified) | SCR AAF2 |
| SAFI Instituto Nacional de Seguros | BACLACcFI | F.I. non-diversified INS - liquidity c | SCR AAF 2 |
| SAFI Instituto Nacional de Seguros | BACLAD$FI | F.I. non-diversified INS - liquidity d | SCR AAF 2 |
| SAFI Instituto Nacional de Seguros | BANCREDILASC¢FI | F.I. non-diversified INS - public liquidity c | SCR AAF 2 |
| SAFI Instituto Nacional de Seguros | BANCREDILASD$FI | F.I. non-diversified INS - public liquidity d | SCR AAF 2 |
| SAFI SCOTIABANK | ITFCPPU$FI | F.I. non-diversified public d Scotia | SCR AAF 3 |
| SAFI SCOTIABANK | ITFCPPUcFI | F.I. non-diversified public Scotia | SCR AAF2 |
| Ministry of Finance | CRG0000B70G0 | Repurchase operation | BB |
| Ministry of Finance | CRG0000B91G6 | Repurchase operation | BB |
| Ministry of Finance | USP3699PAA59 | Repurchase operation | BB |
| Ministry of Finance | USP3699PGH49 | Repurchase operation | BB |
| **CRICSA** | | | |
| SAFI Banco Nacional de Costa Rica | | Fondo BN diner fondo colones non-diversified | scrAA+f2 |

*(In millions of colones)*

Estimation of potential losses:

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

| International rating | | | | |
|---|---|---|---|---|
| Term | Moody's | Standard & Poor's | Fitch | Weighting factor |
| 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 | AA | 1% |
| | A | A | A | 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 factor |
| Short-term | 1, 2, 3 | 7.50% |
| | other | 10% |
| Long-term | AAA-A | 7.50% |
| | BBB-B | 9% |
| | CCC and other | 10% |

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

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

*(In millions of colones)*

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

| Liabilities | | Carrying amount | Expected cash flows | 12 months or less | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Long-term liabilities** | | | | | | | |
| Securities payable | ¢ | **1,128,172** | 1,128,172 | 785 | 37,905 | 499,336 | 590,146 |
| Loans payable | | **740,528** | 740,528 | - | 144,269 | 282,097 | 314,162 |
| Accounts payable | | **6,048** | 6,048 | 3,871 | 2,177 | - | - |
| **Total long-term liabilities** | | **1,874,748** | **1,874,748** | **4,656** | **184,351** | **781,433** | **904,308** |
| **Circulante** | | | | | | | |
| Loans payable | | **118,216** | 118,216 | 118,216 | - | - | - |
| Accounts payable | | **84,757** | 84,757 | 84,757 | - | - | - |
| Accrued finance expenses | | **22,488** | 22,488 | 22,488 | - | - | - |
| **Total short-term liabilities** | | **225,461** | **225,461** | **225,461** | **-** | **-** | **-** |
| **Total ICE Group** | ¢ | **2,100,209** | **2,100,209** | **230,117** | **184,351** | **781,433** | **904,308** |

The table below presents the periods in which cash flows related to derivative financial instruments are generated. The calculation of expected cash flows includes the projected estimated cash flows for each derivative instrument.

| In millions of colones | | Carrying amount | Expected cash flows | 6 months or less | 6 to 12 months | 1 to 2 years | 2 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Cross currency swap | | | | | | | | |
| Liabilities | ¢ | (13,236) | 10,397 | 863 | 830 | 1,547 | 3,730 | 3,426 |
| Swap | | | | | | | | |
| Liabilities | | (9) | 9 | 4 | 3 | 2 | - | - |
| Forward staring swap | | | | | | | | |
| Liabilities | | (4,917) | 5,136 | 1,046 | 864 | 1,164 | 1,597 | 465 |
| Plain vanilla swap | | | | | | | | |
| Liabilities | | (3,977) | 4,315 | 1,146 | 1,011 | 1,437 | 721 | - |
| Plain vanilla swap | | | | | | | | |
| Liabilities | | (995) | 1,507 | 381 | 320 | 483 | 323 | - |
| Non delivery currency swap 3 años | | | | | | | | |
| Liabilities | | 1,306 | 3,406 | 862 | 865 | 1,679 | - | - |
| Non delivery currency swap 7 años | | | | | | | | |
| Liabilities | | 610 | 5,988 | 1,022 | 1,024 | 2,017 | 1,925 | - |
| Non delivery currency swap 3 años | | | | | | | | |
| Liabilities | | 1,637 | 4,190 | 1,029 | 1,061 | 2,100 | - | - |
| Non delivery currency swap 3 años | | | | | | | | |
| Liabilities | | 705 | 1,187 | 420 | 396 | 371 | - | - |
| Total | | (18,876) | 36,134 | 6,772 | 6,374 | 10,800 | 8,296 | 3,891 |

(Continued)

*(In millions of colones)*

A detail of lines of credit acquired with financial institutions and used for working capital during the year ended December 31, 2014 is presented below:

| General characteristics of the lines of credit | | | | | Disbursement conditions | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **Purpose** | **Currency** | **Interest rate** | **Approved amount** | **Date disbursed** | **Maturity date** | **Settlement date** | **Renewal date** | **Disbursed amount** |
| Citibank | Working capital and opening and refinancing of letters of credit | US$ | 1M LIBOR + 2.10% = 2.26735% | 80 | 13-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 14 |
| | | US$ | 2M LIBOR + 2.10% = 2.3128% | | 30-Dec-13 | 13-Feb-14 | 13-Feb-14 | - | 14 |
| | | US$ | 2M LIBOR + 1.30% = 1,49075% | | 9-Jun-14 | 8-Aug-14 | 8-Aug-14 | - | 18 |
| Scotiabank | Opening and refinancing of letters of credit, working capital and issue of performance bonds | US$ | 1M LIBOR + 1.13% = 1.2985% | 75 | 13-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 5 |
| | | US$ | Fixed rate 1.295% | | 30-Dec-13 | 13-Feb-14 | - | 13-Feb-14 | 31 |
| | | US$ | Fixed rate 1.2973% | | 27-Dec-13 | 10-Feb-14 | - | 10-Feb-14 | 5 |
| | | US$ | Fixed rate 1.40% | | 10-Feb-14 | 10-Jun-14 | 10-Jun-14 | - | 31 |
| | | US$ | Fixed rate 1.40% | | 13-Feb-14 | 13-Jun-14 | 13-Jun-14 | - | 5 |
| | | US$ | Fixed rate 1.40% | | 14-Feb-14 | 13-Jun-14 | 13-Jun-14 | - | 24 |
| | | US$ | Fixed rate 1.40% | | 31-Jan-14 | 30-May-14 | 30-May-14 | - | 33 |
| | | US$ | Fixed rate 1.40% | | 9-Jun-14 | 8-Aug-14 | - | 8-Aug-14 | 31 |
| | | US$ | Fixed rate 1.38% | | 8-Aug-14 | 7-Oct-14 | - | 7-Oct-14 | 31 |
| | | US$ | Fixed rate 1.38% | | 7-Aug-14 | 6-Oct-14 | - | 6-Oct-14 | 18 |
| | | US$ | Fixed rate 1.335% | | 7-Oct-14 | 22-Dec-14 | 22-Dec-14 | - | 31 |
| | | US$ | Fixed rate 1.335% | | 6-Oct-14 | 22-Dec-14 | 22-Dec-14 | - | 18 |
| | | US$ | Fixed rate 1.26% | | 23-Dec-14 | 12-Jan-15 | - | - | 4 |
| | | US$ | Fixed rate 1.47% | | 23-Dec-14 | 21-May-15 | - | - | 15 |
| Bladex | Opening and refinancing of letters of credit and working capital | US$ | 1M LIBOR + 0.95% = 1.1185% | 100 | 8-Nov-13 | 27-Dec-13 | - | 27-Dec-13 | 13 |
| | | US$ | 1M LIBOR + 0.95% = 1.1185% | | 13-Nov-13 | 27-Dec-13 | - | 27-Dec-13 | 10 |
| | | US$ | Fixed rate 1.1185% | | 27-Dec-13 | 10-Feb-13 | - | 10-Feb-14 | 23 |
| | | US$ | 1M LIBOR + 1.00% = 1.1670% | | 25-Nov-13 | 30-Dec-13 | - | 30-Dec-13 | 38 |
| | | US$ | 1M LIBOR + 1.00% = 1.1675% | | 6-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 32 |
| | | US$ | 1M LIBOR + 1.00% = 1.1675% | | 13-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 7 |
| | | US$ | Fixed rate 1.1675% | | 30-Dec-13 | 13-Feb-14 | - | 13-Feb-14 | 77 |
| | | US$ | Fixed rate 1.41823% | | 10-Feb-14 | 10-Jun-14 | 10-Jun-14 | - | 23 |
| | | US$ | Fixed rate 1.41823% | | 13-Feb-14 | 13-Jun-14 | - | 13-Jun-14 | 77 |
| | | US$ | Fixed rate 1.67980% | | 13-Jun-14 | 11-Sep-14 | - | 18-Sep-14 | 77 |
| | | US$ | Fixed rate 1.49410% | | 8-Aug-14 | 7-Oct-14 | 7-Oct-14 | - | 20 |
| Global bank | Working capital | US$ | Fixed rate 1.25% | 20 | 13-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 10 |
| | | US$ | Fixed rate 1.75% | | 30-Dec-13 | 13-Feb-14 | 13-Feb-14 | - | 10 |
| | | US$ | Fixed rate 2.25% | | 12-Jun-14 | 11-Aug-14 | 11-Aug-14 | - | 20 |
| | | US$ | Fixed rate 1.25% | | 23-Dec-14 | 12-Jan-15 | - | - | 20 |
| Mercantil commerce bank | Working capital and opening and financing of letters of credit | US$ | Fixed rate 1.10% | 50 | 8-Nov-13 | 27-Dec-13 | - | 27-Dec-13 | 5 |
| | | US$ | Fixed rate 1.14% | | 27-Dec-13 | 10-Feb-14 | 10-Feb-14 | - | 5 |
| | | US$ | Fixed rate 1.125% | | 9-Dec-13 | 30-Dec-13 | - | 30-Dec-13 | 20 |
| | | US$ | Fixed rate 1.14% | | 30-Dec-13 | 13-Feb-14 | 13-Feb-14 | - | 20 |
| | | US$ | Fixed rate 1.30% | | 11-Feb-14 | 10-Jun-14 | 10-Jun-14 | - | 5 |
| | | US$ | Fixed rate 1.14% | | 14-Feb-14 | 13-Jun-14 | 13-Jun-14 | - | 20 |
| | | US$ | Fixed rate 1.30% | | 31-Jan-14 | 30-May-14 | 30-May-14 | - | 5 |
| | | US$ | Fixed rate 1.35% | | 9-Jun-14 | 8-Aug-14 | - | 8-Aug-14 | 5 |
| | | US$ | Fixed rate 1.35% | | 12-Jun-14 | 11-Aug-14 | - | 11-Aug-14 | 4 |
| | | US$ | Fixed rate 1.375% | | 17-Jul-14 | 13-Nov-14 | - | 13-Nov-14 | 15 |
| | | US$ | Fixed rate 1.35% | | 8-Aug-14 | 7-Oct-14 | 7-Oct-14 | - | 5 |
| | | US$ | Fixed rate 1.35% | | 11-Aug-14 | 10-Oct-14 | 10-Oct-14 | - | 4 |
| | | US$ | Fixed rate 1.34% | | 14-Oct-14 | 29-Dec-14 | 29-Dec-14 | - | 6 |
| | | US$ | Fixed rate 1.30% | | 10-Nov-14 | 29-Dec-14 | 29-Dec-14 | - | 5 |
| | | US$ | Fixed rate 1.30% | | 13-Nov-14 | 29-Dec-14 | 29-Dec-14 | - | 15 |

**Nota**: **Corresponds to disbursements made in 2013, transferred from one budget year to another since they were used as a "bridge loan" while the long-term funds were obtained.

*Corresponds to disbursements made in 2014, transferred from one budget year to another since they were used as a "bridge loan" while the long-term funds were obtained.

(Continued)

Lines of credit for December 31, 2013 are presented below:

| General characteristics of the lines of credit | | | | | Disbursement conditions | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **Purpose** | **Currency** | **Interest rate** | **Approved amount** | **Date disbursed** | **Maturity date** | **Settlement date** | **Renewal date** | **Disbursed amount (in thousands of U.S. dollars, as per indication)** |
| Citibank | Working capital and opening and refinancing of letters of credit | US$ | 1M LIBOR + 1.35% = 1.5497% | 50 | 17-Apr-13 | 17-May-13 | 17-May-13 | - | 12 |
| | | US$ | 1M LIBOR + 1.33% = 1.5292% | | 24-Apr-13 | 24-May-13 | 24-May-13 | - | 3 |
| | | US$ | 1M LIBOR + 2.10% = 2.26735% | | 13-Dec-13 | 30-Dec-13 | - | 30-Dic-2013 | 14 |
| | | US$ | 2M LIBOR + 2.10% = 2.3128% | | 30-Dec-13 | 13-Feb-14 | - | - | 14 |
| Scotiabank | Opening and refinancing of letters of credit, working capital and issue of performance bonds | Colones | Fixed rate 9.35% | 60 | 14-Dec-12 | 14-Mar-13 | - | 14-Mar-2013 | 7,500 |
| | | Colones | Fixed rate 7.65% | | 14-Mar-13 | 12-Jun-13 | 12-Jun-13 | - | 7,500 |
| | | US$ | 3M LIBOR + 1.48% = 1.789% | | 19-Dic-2012 | 19-Mar-13 | - | 19-Mar-2013 | 20 |
| | | US$ | 3M LIBOR + 1.48% = 1.76% | | 19-Mar-13 | 17-Jun-13 | 17-Jun-13 | - | 20 |
| | | US$ | 1M LIBOR + 1.29% = 1.4882% | | 8-May-13 | 7-Jun-13 | 7-Jun-13 | - | 3 |
| | | US$ | 3M LIBOR + 1.25% = 1.5231% | | 3-Jul-13 | 24-Sep-13 | 24-Sep-13 | - | 11 |
| | | US$ | 2M LIBOR + 1.13% = 1.35889% | | 29-Jul-13 | 30-Sep-13 | 30-Sep-13 | - | 8 |
| | | US$ | 2M LIBOR + 1.05% = 1.2682% | | 27-Sep-13 | 26-Nov-13 | 26-Nov-13 | - | 3 |
| | | US$ | 1M LIBOR + 0.93% = 1.0985% | | 7-Nov-13 | 16-Dec-13 | - | - | 11 |
| | | US$ | 1M LIBOR + 0.93% = 1.0985% | | 8-Nov-13 | 23-Dec-13 | - | - | 20 |
| | | US$ | 1M LIBOR + 1.13% = 1.2985% | | 13-Dec-13 | 30-Dec-13 | - | 30-Mar-2013 | 5 |
| | | US$ | Fixed rate 1.295% | | 30-Dec-13 | 13-Feb-14 | - | - | 5 |
| | | US$ | Fixed rate 1.2973% | | 27-Dec-13 | 13-Feb-14 | - | - | 31 |
| Bladex | Opening and refinancing of letters of credit and working capital | US$ | Libor (6m) +1.55% = 2.0156% | 100 | 14-Feb-13 | 13-Aug-13 | 13-Aug-13 | - | 18 |
| | | US$ | 3M LIBOR +1.48% = 1.76660% | | 28-Feb-13 | 29-May-13 | 29-May-13 | - | 25 |
| | | US$ | 3M LIBOR + 1.48% = 1.7601% | | 18-Mar-13 | 17-Jun-13 | 17-Jun-13 | - | 13 |
| | | US$ | 1M LIBOR + 1.30% = 1.4992% | | 24-Apr-13 | 24-May-13 | 24-May-13 | - | 9 |
| | | US$ | 1M LIBOR + 1.30% = 1.4982% | | 30-Apr-13 | 30-May-13 | 30-May-13 | - | 16 |
| | | US$ | 1M LIBOR + 1.30% = 1.4982% | | 8-May-13 | 7-Jun-13 | 7-Jun-13 | - | 7 |
| | | US$ | 1M LIBOR + 1.30% = 1.4992% | | 10-May-13 | 10-Jun-13 | 10-Jun-13 | - | 12 |
| | | US$ | 3M LIBOR + 1.20% = 1.46760% | | 18-Jul-13 | 30-Sep-13 | 30-Sep-13 | - | 8 |
| | | US$ | 3M LIBOR + 0.95% = 1.2164% | | 12-Aug-13 | 12-Nov-13 | 12-Nov-13 | - | 48 |
| | | US$ | 1M LIBOR + 0.95% = 1.1185% | | 8-Nov-13 | 27-Dec-13 | - | 27-Dic-2013 | 13 |
| | | US$ | 1M LIBOR + 0.95% = 1.1185% | | 13-Nov-13 | 27-Dec-13 | - | 27-Dic-2013 | 10 |
| | | US$ | Fixed rate 1.1185% | | 27-Dec-13 | 10-Feb-14 | - | - | 23 |
| | | US$ | 1M LIBOR + 1.00% = 1.1670% | | 25-Nov-13 | 30-Dec-13 | - | 30-Dic-2013 | 38 |
| | | US$ | 1M LIBOR + 1.00% = 1.1675% | | 6-Dec-13 | 30-Dec-13 | - | 30-Dic-2013 | 32 |
| | | US$ | 1M LIBOR + 1.00% = 1.1675% | | 13-Dec-13 | 30-Dec-13 | - | 30-Dic-2013 | 7 |
| | | US$ | Fixed rate 1.1675% | | 30-Dec-13 | 13-Feb-14 | - | - | 77 |
| Global bank | Working capital | US$ | Fixed rate 1.25% | 20 | 13-Dec-13 | 30-Dec-13 | - | 30-Dic-2013 | 10 |
| | | US$ | Fixed rate 1.75% | | 30-Dec-13 | 13-Feb-14 | - | - | 10 |
| Mercantil commerce bank | Working capital and opening and financing of letters of credit | US$ | 3M LIBOR + 1.50% = 1.8090% | 30 | 19-Dec-12 | 19/03/2013 | 19-Mar-13 | - | 13 |
| | | US$ | 3M LIBOR +1.53 = 1.9959% | | 14-Feb-13 | 13-Aug-13 | 13-Aug-13 | - | 17 |
| | | US$ | 1M LIBOR + 1.34% = 1.5397% | | 17-Apr-13 | 17-May-13 | 17-May-13 | - | 13 |
| | | US$ | 2M LIBOR + 1.05% = 1.27789% | | 6-Aug-13 | 30-Sep-13 | 30-Sep-13 | - | 10 |
| | | US$ | 2M LIBOR + 1.00% = 1.2180% | | 27-Sep-13 | 26-Nov-13 | 26-Nov-13 | - | 20 |
| | | US$ | 2M LIBOR + 1.00% = 1.2145% | | 18-Oct-13 | 16-Dec-13 | - | - | 5 |
| | | US$ | Fixed rate 1.10% | | 8-Nov-13 | 27-Dec-13 | - | 27-Dic-2013 | 5 |
| | | US$ | Fixed rate 1.14% | | 27-Dec-13 | 10-Feb-14 | - | - | 5 |
| | | US$ | Fixed rate 1.125% | | 9-Dec-13 | 30-Dec-13 | - | 30-Dic-2013 | 20 |
| | | US$ | Fixed rate 1.14% | | 30-Dec-13 | 13-Feb-14 | - | - | 20 |

**Note 1:** *Corresponds to disbursements made in 2012, transferred from one budget year to another since they were used as a "bridge loan" while the long-term funds were obtained.

**Note: 2** **Corresponds to disbursements made in 2013, transferred from one budget year to another since they were used as a "bridge loan" while the long-term funds were obtained.

(Continued)

*(In millions of colones)*

## Market risk

### Exposure to currency risk

As of December 31, 2014, ICE Group's exposure to foreign currency risk is as follows:

| | U.S. dollars | | Yens | | Euros | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Assets** | | | | | | |
| Materials in transit for investment | 39 | 96 | 1 | 7 | 29 | 83 |
| Long-term investments | 2 | 3 | - | - | - | - |
| Notes receivable | 6 | 40 | 38 | 3 | 1 | 1 |
| Banks and temporary investments | 155 | 144 | - | - | - | - |
| Restricted funds | 2 | 2 | - | - | - | - |
| Receivables for services rendered | 12 | 14 | - | - | - | - |
| Non-trade receivables | 6 | 2 | - | - | - | - |
| Securities received as guaranty deposits | 1 | 1 | - | - | - | - |
| Materials in transit for operations | 29 | 32 | 0 | - | - | - |
| Valuation of derivative financial instruments | 10 | - | - | - | - | - |
| **Total assets in foreign currency** | **262** | **334** | **39** | **10** | **30** | **84** |
| **Liabilities** | | | | | | |
| Securities payable | 1,608 | 1,734 | - | - | - | - |
| Long-term and short-term loans payable | 1,313 | 1,067 | 11,336 | 12,824 | - | - |
| Obligations derived from credit | - | 2 | - | - | - | - |
| Guaranty deposits | 2 | 2 | - | - | - | - |
| Accounts payable | 86 | 132 | 38 | 5 | 35 | 60 |
| Accrued finance expenses | 35 | 49 | - | - | - | - |
| Deposits from private individuals or companies | 1 | 2 | - | - | - | - |
| Provisions | 0 | 1 | - | - | - | - |
| Valuation of derivative financial instruments | 47 | 47 | - | - | - | - |
| **Total liabilities in foreign currency** | **3,092** | **3,036** | **11,374** | **12,829** | **35** | **60** |
| **Excess assets over liabilities ICE Group** | **-** | **-** | **-** | **-** | **-** | **24** |
| **Excess liabilities over assets ICE Group** | **2,830** | **2,702** | **11,335** | **12,819** | **5** | **-** |

(Continued)

*(In millions of colones)*

Items in U.S. dollars were updated using the sell exchange for the colón with respect to the U.S. dollar established by the Central Bank of Costa Rica for operations with the non-banking public sector. As of December 31, 2014, such foreign exchange rate was ¢542.22 (2013: ¢502.47).

The main exchange rates used are as follows:

| Currency name | Exchange rate with U.S. dollar As of December 31, 2014 | 2013 |
|---|---|---|
| Swedish krona | 7.81 | 6.44 |
| Pound sterling | 1.56 | 1.66 |
| Swiss franc | 0.99 | 0.89 |
| Euro | 1.21 | 1.37 |
| Colon | 542.22 | 502.47 |
| Japanese yen | 119.78 | 105.31 |

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…".

<u>Sensitivity analysis</u>

The table below shows the sensitivity as of December 31, 2014 to an increase or decrease in the exchange rate of the U.S. dollar with respect to the colón. ICE Group applies a sensitivity index of 10%, which represents its best estimate of exchange rate variations of the U.S. dollar with respect to the colón.

*(In millions of colones)*

**U.S. dollar**

| | | |
|---|---|---|
| *Sensitivity to an increase in the exchange rate:* | | |
| Net position in U.S. dollars (expressed in colones) at the closing exchange rate | ¢ | 1,534,482,600,000 |
| Net position in U.S. dollars | US$ | 2,830,000,000 |
| Increase of 10% in exchange rate | ¢ | 1,687,930,860,000 |
| Loss | ¢ | (153,448,260,000) |
| *Sensitivity to a decrease in the exchange rate:* | | |
| Net position in U.S. dollars (expressed in colones) at the closing exchange rate | ¢ | 1,534,482,600,000 |
| Net position in U.S. dollars | US$ | 2,830,000,000 |
| Increase of 10% in exchange rate | ¢ | 1,381,034,340,000 |
| Gain | ¢ | 153,448,260,000 |

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

Exposure to interest rate risk

ICE Group maintains significant assets and liabilities, mainly represented by temporary investments, long-term investments, and securities and loans payable obtained to finance its commercial operations, which are subject to interest rate variations.

A detail of interest rates for financial assets and liabilities is presented in the following notes:

| | **Note** |
|---|---|
| Securities payable | 19 |
| Temporary investments | 8 |
| Loans payable | 20 |
| Long-term investments | 6 |
| Notes and accounts receivable | 10 |

Sensitivity analysis

In managing interest rate risk, ICE Group aims to reduce the impact of short-term fluctuations on its earnings. With respect to temporary investments, long-term investments, and securities and loans payable, permanent changes in interest rates would have an impact on earnings.

During the year ended December 31, 2014, 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:

*(In millions of colones)*

| | | Effects in profit or loss: Income (Expense) | |
|---|---|---|---|
| | | As of December 31, 2014 | |
| | | Strengthening of 1% | Weakening of 1% |
| **ICE** | | | |
| Temporary investments | ¢ | 1,879 | (1,879) |
| Long-term financial investments | | 536 | (536) |
| Long-term notes receivable | | 77 | (77) |
| Short-term notes receivable | | 31 | (31) |
| Long-term securities payable | | 10,865 | (10,865) |
| Short-term securities payable | | 519 | (519) |
| Long-term loans payable | | 7,118 | (7,118) |
| Short-term loans payable | | 1,112 | (1,112) |
| **Net effect ICE Group** | **¢** | **22,137** | **(22,137)** |

## Note 39. ICE Group's operating segments

A segment is a distinguishable component of ICE Group that is engaged in providing related products and services (business segment), which is subject to risks and rewards that are different from those of other segments. Business segments are determined based on ICE Group's internal organizational and informational structure.

The segments identified by ICE Group are: ICE Telecom, which includes the Telecom segment, RACSA, CRICSA, and CVCRSA, and ICE Electricity, which includes the Electricity segment and CNFL. These segments offer different products and services and are managed separately because they require different technologies and market strategies. A description of the operations that must be reported to each segment is summarized below:

| Segment to which operations are reported | Operations |
|---|---|
| Electricity | Provides electric power generation, transmission, and distribution services nationally and, to a lesser extent, to Central America. |
| Telecom | Provides basic and fixed telephony services, mobile services, pre-paid and post-paid plans, wireless internet, messaging and international services, dial-up and dedicated internet access and ADSL services, and various business services. |

(Continued)

*(In millions of colones)*

Information on those segments is presented below:

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Electricity | | Telecom | | Eliminations | | Consolidated total | |
| **Assets and liabilities by segment** | | **2014** | **2013 *** | **2014** | **2013 *** | **2014** | **2013 *** | **2014** | **2013 *** |
| Assets | ¢ | 4,233,956 | 4,035,167 | 1,505,811 | 1,537,020 | (237,196) | (240,351) | 5,502,572 | 5,331,837 |
| Liabilities | | 2,224,459 | 2,154,095 | 463,550 | 498,664 | (191,597) | (216,771) | 2,496,412 | 2,435,988 |

*** Restated, see note 25.**

| | For the period ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Electricity | | Telecom | | Eliminations | | Consolidated total | |
| **Profit and loss by segment** | | **2014** | **2013 *** | **2014** | **2013 *** | **2014** | **2013 *** | **2014** | **2013 *** |
| Profit by segment | ¢ | 1,047,151 | 1,029,792 | 587,288 | 546,940 | (257,288) | (253,932) | 1,377,151 | 1,322,800 |
| Depreciation of operating assets | | 130,214 | 127,241 | 136,675 | 116,648 | (183) | (151) | 266,706 | 243,738 |
| Other income | | 340,190 | 60,007 | 20,740 | 18,265 | (4,570) | (4,395) | 356,360 | 73,877 |
| Other foreign exchange income | | 20,716 | 38,409 | 3,395 | 3,500 | (81) | - | 24,030 | 41,910 |
| Finance expenses | | 83,482 | 91,514 | 13,644 | 10,912 | (2,015) | (1,546) | 95,111 | 100,880 |
| Other expenses | | 316,847 | 41,812 | 12,165 | 1,343 | (1,884) | (2,559) | 327,129 | 40,596 |
| Other foreign exchange expenses | | 126,880 | 6,864 | 24,697 | 779 | - | - | 151,577 | 7,643 |
| Consolidated profit (deficit), net | | (53,751) | 45,128 | (28,041) | (14,605) | (1,468) | 763 | (83,261) | 31,286 |

*** Restated, see note 25.**

(Continued)

As of December 31, 2014, the main related transactions affecting the consolidated balance sheet and consolidated statement of profit or loss of the Electricity and Telecom business of ICE Group, are as follows:

- Intersectoral Letter of Understanding (optical ground wire - OPGW): services provided by the Electricity segment to the Telecom segment related to the right of use of fiber optic (OPGW) installed in transmission lines, posts, fiber optic network, and electric power distribution, which affect the following balance sheet items:

  - Operating assets - cost: ¢14,720
  - Accumulated depreciation of operating assets - cost: ¢2,730
  - Long-term notes receivable: ¢29,216
  - Prepaid expenses: ¢7,432
  - Long-term prepaid income: ¢44,929
  - Short-term prepaid income: ¢2,534
  - Development reserve: ¢739

- ICE long-term investment and paid-in capital in subsidiary: ¢35,245.

- Reclassification of share dividends declared by CNFL and RACSA, from share capital to restricted earnings from capitalization of stake in subsidiaries: ¢62,380 and ¢2 (respectively).

- Services rendered CNFL-ICE: ¢13,674.

- Power purchase agreement between ICE and CNFL: ¢27,355.

- Sale of power from ICE to CNFL: ¢20,109.

- Income from billings related to the Balsa Inferior Hydroelectric Power Project: ¢7,612.

- Sale of power from ICE to CNFL: ¢238,085.

- Power meter services CNFL-ICE: ¢6,547.

(Continued)

*(In millions of colones)*

## Note 40. Contingent assets and liabilities

Active judicial processes involving ICE Group as of December 31, 2014 are as follows:

| Proceedings | Nature and current status | | Estimated amount of the suit | As of December 31, 2014 Litigation provision | 2013 |
|---|---|---|---|---|---|
| **Contingent assets - lawsuits filed by ICE:** | | | | | |
| Legal collections | The Legal Collections area handles executive processes in order to recover unpaid amounts for electricity services. | | 3,821 | - | - |
| Arbitration | ICE awarded Verizon, through a tender, the production of phonebooks. Due to a contractual breach by Verizon, ICE began a contractual resolution procedure. ICE presented judicial proceedings before an administrative court in 2005, to collect damages. Within this process ICE requested as a precautionary measure to seize the monies deposited by ICE. However, the judge declared that the administrative court lacked the jurisdiction to hear the process because in the contract signed by ICE and VERIZON there was an arbitration clause. In 2011 ICE filed a prima facie precautionary measure to maintain the seizure on the monies deposited by ICE in 2005, measure that remains in effect, and presented it at the arbitration venue. Said arbitration is carried out at the Costa Rican-North American Chamber of Commerce. Current status of the proceedings: "By means of a decision of the First Chamber of the Supreme Court of Justice of 14:25 of January 29, 2015, we disallow the appeal for annulment filed by the defendant against that ruled by this Chamber regarding the jurisdiction of the Arbitration Court." | | 9,717 | - | - |
| Ordinary Administrative | Ordinary Administrative proceedings against the State and other defendants. One of the proceedings addresses the situation of an objection filed by the defendants, seeking the declaration of unlawfulness. The transfer of the claim has not been completed because two of the defendants need to be located for their notification. In other proceedings the plaintiff seeks the annulment of administrative acts for collection of fines that ICE executed at the time, which the judgment of the Administrative Court N° 173-2013-I modified the first instance, and rejects the claim on all grounds, with the legal costs for both parties assigned to the plaintiff, but the decision is not final. On January 21, 2014 the plaintiff filed an appeal which ICE opposes. | | 2,902 | - | - |
| | **Total contingent assets - ICE Group** | ¢ | **16,440** | **-** | **-** |

| Proceedings | Nature and current status | | Estimated amount of the suit | As of December 31, 2014 | 2013 |
|---|---|---|---|---|---|
| | | | | Litigation provision | |
| | Brought forward | | **16,440** | - | - |
| Administrative Contracting | Lawsuit seeking payment for lease of machinery, which according to the plaintiff were not recognized in the execution of the contract. In addition to canceling a readjustment of prices, awaiting the judgment hearing, which has been delayed because this case was joined with other two files. | | 1,898 | - | - |
| Ordinary Administrative | Collection of damages derived from the agreements and convictions ruled in the United States against Alcatel-Lucent. Currently reviewing an appeal for reversal filed by ICE, after the Court endorsed a preliminary exception of transaction filed by Alcatel, whereby the amount paid to the State settles the amounts that we claim in these proceedings. This process substitutes the previous process filed in the United States, and seeks payment for damages derived from the convictions and agreements of Alcatel in the United States. | | 9,218 | - | - |
| Ordinary | Claim filed against an insurance company to recover that invested in correcting damages caused by a landslide and that were not covered by the policy. The insurance company deposited in the Court 78% of the total amount requested. There was a favorable ruling for ICE Group in the second instance. | | 1,134 | - | - |
| | **Total contingent assets - ICE Group** | ¢ | **28,690** | - | - |

(Continued)

*(In millions of colones)*

| Proceedings | Nature and current status | Estimated amount of the suit | As of December 31, 2014 | 2013 |
|---|---|---|---|---|
| | | | Litigation provision | |
| **Contingent liabilities - lawsuits filed against ICE Group:** | | | | |
| Expropriation | As of December 31, 2014, there are 654 judicial proceedings regarding forced expropriation, in order to obtain possession and gain legal title of the property required for the different projects being developed. These proceedings are related to appraisals made by ICE appraisers that were not formalized through the administrative venue, either due to legal issues or rejection of the appraisal. | 9,096 | - | - |
| Ad Hoc Arbitration | The process corresponds to an arbitration which included two claims:<br>Main claim: Declaration of civil liability in an alleged purchase-sale agreement. Updating of the amount to present value plus interest.<br>Alternative claim: Civil liability in respect of delivery of provisional works and concrete forms, in addition to the updating of the amount to present value plus interest and legal costs.<br>Within this process the Arbitration Court admitted the subsidiary claim. The arbitration process ended with the issuing of the Arbitration Award.<br>Said Arbitration Award is being executed by ASTALDI through the judicial proceedings before the Administrative Court under file 15-000763-1027-CA notified on April 6, 2015. | 500 | - | 500 |
| Administrative and Civil Court of Finance | Annulment of administrative act issued by ARESEP ordering ICE to refund the amounts charged to Radio Mensajes S.A. for facilitating its platform to provide content services. The judgment of first instance rejected ICE's claim and ordered it to pay the legal costs. The process is currently reviewing an appeal for reversal filed by ICE. The best estimate includes the costs indicated in the decision plus legal costs. | 2,000 | 667 | - |
| Ordinary | Corresponds to ordinary proceedings, one for the annulment of administrative acts which imposed fines during the period from August 2009 to November 2010, for the lease of machinery and construction equipment. It is in the stage for producing expert evidence since July 2013. In the other process ICE filed an appeal objecting to the remedy, at the request of the plaintiffs. The technical area of ICE has indicated that the amount requested by the company is unlikely to be awarded in the judgment. The process relates to the claim for damages due to differential rates. | 2,595 | - | 1,890 |
| Ordinary Administrative | Administrative proceedings caused by: Request for payment from ICE, relating to the lease of equipment, fines and contractual breach, readjustment of prices, economic balance of the contract and payment of interest, as well as environmental damages and lack of indigenous consultation. The cases are in instances of: Execution of judgment, appeal, declaratory phase and preliminary hearing. | 5,309 | - | 2,648 |
| | **Total contingent liabilities - ICE Group** | **19,500** | **667** | **5,038** |

(Continued)

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

| Proceedings | Nature and current status | Estimated amount of the suit | As of December 31, 2014 Litigation provision | 2013 |
|---|---|---|---|---|
| | Brought forward | **19,500** | **667** | **5,038** |
| Ordinary Administrative | Process caused by the transfer of charges determined in the audit of the period from January - December 2012, Electricity Sector, due to improper tax credits, which were notified on 20/02/2015 and accepted on 27/02/2015 by ICE. These were settled at the beginning of 2015. | 2,936 | 2,936 | - |
| Ordinary | Lawsuit against Compañía Nacional de Fuerza y Luz S.A. by the minority shareholders relating to the donation of a plot to Fundación Consejo de la Tierra los Hermanos, S.A., which was authorized by the legislative assembly. As of December 31, 2010, there is no judgment or settlement of the claimed amounts. | 1,386 | - | - |
| Ordinary | Compañía Nacional de Fuerza y Luz S.A. filed special proceedings for allocation of payment, based on a compensation for flooding in a property near Lago Cote, a hydroelectric project, and the plaintiff does not agree with the established sum. (Rufea S.A.) Status of the proceedings, the decision of second instance confirmed the judgment of first instance. Pending execution of judgment for the settlement of legal costs and interests. Pending resolution of the settlement of legal costs as of 31/10/2014. | 200 | 72 | 72 |
| Ordinary | The plaintiff sues CNFL S.A. and CONAVI, given that the illumination works of the Florencio del Castillo Highway was allegedly built without complying with the standards relating to said activity, and as a consequence her husband died in a car accident. (Vega Fonseca Wendy) | 445 | - | - |
| Ordinary | Rejection by Compañía Nacional de Fuerza y Luz S.A. of a claim regarding the execution of a contract for construction works, design, start up and operation of a Hydroelectric Plant. (Consorcio Hydrocote S.A.). Status of the proceedings, Compañia Nacional de Fuerza y Luz must return US$14.953,70 in favor of Hydrocote. Hydrocote was sentenced to pay the legal costs in favor of Compañía Nacional de Fuerza y Luz. | 1,528 | 16 | 15 |
| | **Total contingent liabilities - ICE Group** | **25,995** | **3,691** | **5,125** |

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

| Proceedings | Nature and current status | Estimated amount of the suit | As of December 31, 2014 | 2013 |
|---|---|---|---|---|
| | | | Litigation provision | |
| | Brought forward | **25,995** | **3,691** | **5,125** |
| Ordinary | Counterclaim against Compañía Nacional de Fuerza y Luz relating to the intended collection of fines from a third party regarding the execution of the underground electrification project for the city of San José and delays in the review and approval of the engineering. There is no judgment or settlement of the claimed amounts. | 4,801 | - | - |
| Ordinary | Counterclaim against CNFL in response to the collection sought by a third party to collect 15 claims submitted during the San Jose underground electrification project. There is no judgment or settlement of the claimed amounts. | 5,090 | - | - |
| Ordinary | The plaintiff requested an extension of the period for execution, the annulment of some acts of Compañía Nacional de Fuerza y Luz S.A., annulment of the fine withholdings and return the money plus applicable legal interests. There is no judgment or settlement of the claimed amounts. (Ghella Spa Costa Rica) | 359 | - | - |
| Ordinary | Claim that seeks the annulment of the limitations imposed in Addendum No. 01 of the contract for the design, construction and equipment and start up of operations for a hydroelectric project and its annexes, to recognize price readjustments, therefore Compañía Nacional de Fuerza y Luz S.A. must pay the plaintiff for those readjustments. The preliminary hearing was held; awaiting the decision of the public oral proceedings. | 18,332 | - | - |
| Ordinary | The plaintiff requested a precautionary measure against Compañía Nacional de Fuerza y Luz S.A. for having executed the performance bond and collected fines. In addition, it filed a formal complaint for consequential damages, lost wages and lost opportunity costs. (Grupo Corporativo Saret). Compañia Nacional de Fuerza y Luz challenged the complaint and the preliminary hearing was held in 2014. However, it was not completed that same day; therefore, the court will reschedule the continuation. | 13,878 | - | - |
| Ordinary | Claim for non-contractual civil liability for damages. | 275 | - | 199 |
| Ordinary | Claim by Banco San José for voltage changes that caused damage to computer equipment and lights. Provision for sentence 2608 - 2012. (Bac San José) | - | 10 | 10 |
| | **Total contingent liabilities - ICE Group** | **68,730** | **3,701** | **5,334** |

(Continued)

INSTITUTO COSTARRICENSE DE ELECTRICIDAD (ICE) AND SUBSIDIARIES

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

| Proceedings | Nature and current status | Estimated amount of the suit | As of December 31, 2014 Litigation provision | 2013 |
|---|---|---|---|---|
| | Brought forward | **68,730** | **3,701** | **5,334** |
| Ordinary | Ordinary proceedings, collection of criminal clause. Appeal for annulment partially accepted and appeal under review for the final decision issued by the deciding body. | 42 | - | - |
| Ordinary | Judicial proceeding filed by Asociación de Desarrollo Integral de la Reserva Indígena de Térraba [Association for the Comprehensive Development of the Térraba Indigenous Reservation] (ADIT), with the Sixth Section of the Administrative Litigation Court requesting the nullity of Decree No. 34312-MP-MINAE of 2008 and eviction from the indigenous territories allegedly occupied by ICE. As a result of alleged cultural damages and occupation of indigenous territories by ICE, the plaintiff seeks compensation for | 108,444 | - | - |
| Ordinary administrative and labor | Several minor processes, ordinary administrative and labor, that are in different stages. | 50 | - | - |
| Administrative | Administrative claim. A precautionary measure was issued. The claim was supplemented. Pending draft of the precautionary measure. | 1,463 | - | - |
| Ordinary Administrative | Payment arrangement DAE. CJ-AP-415-2014, with the Ministry of Finance, for sales tax on internet services, period from 2008 to 2010 | 9,042 | 9,042 | 11,740 |
| | **Total contingent liabilities - ICE Group** | **187,771** | **12,743** | **17,074** |

(Continued)

**Note 41. Legislation**

(a) Law to Create the Costa Rican Power and Telephone Company

The purpose of this Law was the creation of the Instituto Costarricense de Electricidad (Costa Rican Power and Telephone Company), hereinafter referred to as ICE, which was entrusted with the rational development of the country's physical energy sources, especially hydraulic resources.

The regulations establish that ICE shall have legal capacity and full autonomy, so that it is in the best position to achieve its objectives.

This Law states that as an autonomous institution ICE shall exercise its administrative and technical management completely independent of the Executive Branch, observing only the decisions of its Board of Directors, which shall act at its discretion and in accordance with relevant laws and regulations and technical principles, and shall be responsible for its management and shall be fully and unavoidably responsible for its management.

The Law establishes as a fundamental responsibility of ICE toward Costa Ricans channeling the use of hydroelectric power to strengthen the national economy and promote the greatest welfare for the people of Costa Rica.

Pursuant to such regulations, the purposes of ICE are as follows:

(i) Providing a prompt and effective solution to the shortage of electric power in the country, if any, and ensure that power is available at all times to meet normal demand and promote the development of new industries, use of electricity in rural areas, and increased domestic consumption of electricity.

The main efforts of the Institute shall be directed at achieving this objective, using all the required technical, legal, and financial means. Additionally, its basic work schedule shall be the construction of new hydroelectric power plants and their distribution networks.

This task shall be performed within the limits of economically justifiable investments.

(ii) Unifying the separate efforts currently being made to meet the need for electric power, through technical procedures that ensure the best performance in relation to the uses of energy and distribution systems.

(Continued)

(iii) Promoting industrial development and increased domestic production to enable the preferential use of electric power as driving force and heating source, and help to better understand and exploit the country's sources of wealth through advisory and technological research.

(iv) Ensuring the rational use of natural resources and end the destructive and wasted exploitation thereof. In particular, seeking to promote domestic use of electricity for heating in substitution for fuels obtained from national forests and imported fuels, and promoting the use of wood as an industrial raw material.

(v) Preserving and defending the country's hydraulic resources by protecting the basins, sources, and beds of rivers and water courses, and providing assistance in that respect to the National Electricity Service and the Ministries of Agriculture and Public Works through a cooperation program.

(vi) Assisting in enabling land for agriculture through irrigation and control of rivers, where this is economically feasible, through a comprehensive development of sites that are used to produce electric power.

(vii) Establishing efficient technical, administrative, and financial procedures to ensure the proper operation of the Institute and serve as a standard for other activities of Costa Ricans.

(viii) Seeking the sustainable establishment, improvement, expansion, and operation of telecommunication networks, as well as providing and commercializing telecommunication, info-communication, and information products and services, and other convergence products and services. The concessions that ICE and its companies require to accomplish these purposes shall be subject to the terms, duties, obligations, and other conditions established by the applicable legislation.

However, in accordance with the conditions stipulated in the previous paragraph, ICE will be able to maintain ownership of the concessions currently awarded to it and in use for the corresponding legal term.

(b) Law of the Public Utilities Regulatory Authority

The Law of the Public Utilities Regulatory Authority, Law No. 7593, published in Official Gazette No. 169 of September 5, 1996, establishes transformation of the former National Electricity Service (SNE) into the Public Utilities Regulatory Authority (ARESEP).

This Law provides that the duties of ARESEP include establishing prices and rates and ensuring compliance with quality, quantity, reliability, continuity, timeliness, and optimum provision standards of public services, as defined by Article 5, which include electric power supply services in the generation, transmission, distribution and trade stages.

As a public service provider of electric power supply in the generation, transmission, distribution and commercialization stages, ICE is subject among other to the following relevant obligations:

(i) comply with the regulations issued by ARESEP related to the provision of services
(ii) maintain installations and equipment in good condition so that they do not represent any danger to persons or property and do not cause service interruption
(iii) provide timely information, as requested by ARESEP, on the provision of services and financial information of its operations
(iv) protect, preserve, recover, and rationally use the natural resources that are associated with the exploitation of the services
(v) undertake non-profitable activities or investments in ICE's territorial and material level of competence
(vi) provide services to those who request it without discrimination
(vii) provide short-term services in the event of increased demand
(viii) provide services under adequate, regular, and safe conditions in accordance with their nature, concession, or permits
(ix) provide services in equal conditions and charge fair, reasonable prices.

With respect to penalization, ARESEP has the competence to establish penalties against public service providers who engage in any of the following acts:

(i) charge rates or prices other than those established by ARESEP and charge rates not previously established by ARESEP
(ii) inadequate maintenance of infrastructure and work equipment for public services, which endangers people or property
(iii) fraudulent use of goods and services to avoid payment based on regulations
(iv) unauthorized provision of a service
(v) removal, without the express consent of the entity that granted the concession or permission, of the equipment or facilities required to provide public services
(vi) failure to comply with the obligation to provide insurance to workers through CCSS and occupational hazards regime
(vii) failure to comply with binding conditions imposed on public service providers in resolutions regarding tariff sheets
(viii) failure to comply with quality standards and principles in the provision of public services, provided it is not due to force majeure.

(Continued)

Additionally, ICE, as a public service provider, is required to pay ARESEP an annual fee for each regulated activity. Such fee is calculated by ARESEP according to the principle of service at cost, which must include a costing system appropriate for each regulated activity in accordance with Article 82 of Law No. 7593.

(c) General Telecommunications Law

General Telecommunications Law No. 8642 was published in the Official Gazette on June 30, 2008. The purpose of that law is to define the scope and mechanisms for regulation of the Telecom segment, including the use and operation of networks and the provision of telecom services, as well as to:

- Guarantee the right of the people to acquire telecom services under the terms of this law.
- Ensure application of the principles of universal access and cooperation in telecom services.
- Strengthen the mechanisms for universal access and cooperation in the telecom sector, ensuring access to those who require it.
- Protect the rights of users of telecom services, ensuring efficiency, equality, continuity, quality, greater and better coverage, greater and better information, more and better alternatives for service delivery, and private and confidential communications, in accordance with the Political Constitution of the Republic of Costa Rica.
- Promote effective competition in the telecom market as a means to increase the availability of services, improve their quality, and ensure affordable prices.
- Promote the development and use of telecom services within the framework of a knowledge and information society and to support sectors such as health, citizen security, education, culture, commerce, and e-government.
- Ensure the efficient and effective allocation, use, operation, management, and monitoring of the radio-frequency spectrum and other limited resources.
- Stimulate investment in the telecom sector using a legal framework that provides mechanisms that guarantee transparency, non-discrimination, equity, and legal stability and that does not promote levying taxes.
- Ensure that Costa Rica obtains the maximum benefits from technological advancements and changes.
- Achieve a level of development in telecommunications that is similar to the level in developed countries.

Additionally, the aforementioned law states that concessions will be granted for the use and operation of frequencies in the radio spectrum required to operate and use telecom networks. Those concessions will entitle the concession holder to operate and use the network. When the concession relates to public telecom networks, the concession holder is entitled to provide all types of telecom services available to the public. The concession will be awarded for a specific coverage area (regional or national) in order to guarantee the efficient use of the radio spectrum.

This law establishes that the radio spectrum is a public good and the planning, management, and control of its use must be in line with the provisions of the Political Constitution of the Republic of Costa Rica, international treaties, the General Telecommunications Law, the National Telecom Development Plan, the National Frequency Distribution Plan, and other regulations.

The procedures prescribed in the law may not be used to grant concessions or authorizations related to the operation of public telecom networks associated solely with delivery of traditional basic telephone services, which require the specific legislative concession described in paragraph 14 of article 121 of the Political Constitution of the Republic of Costa Rica. The winning bidders in the concession process were Claro CR Telecomunicaciones, which paid US$75 (in millions) for one concession, and Azules y Platas (Telefónica), which paid US$95 (in millions) for another concession.

The law also creates FONATEL as a tool for managing resources earmarked for financing compliance with of the objectives of universal access, universal service, and cooperation established in the law as well as the goals and priorities defined in the National Telecom Development Plan. SUTEL is responsible for managing FONATEL's resources.

Other important aspects of this law include:

- Operators of public networks and providers of public telecom services shall guaranty the secrecy of communications, the right to privacy, and protection of the personal information of subscribers and end users by implementing the necessary systems and technical and administrative measures.

- 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.

(Continued)

- Access to and interconnection with public telecom networks is guaranteed in order to ensure efficiency, true competition, optimization in the use of scarce resources, and greater benefits for users. Interconnection prices shall be aligned with costs, as prescribed in paragraph 13) of article 6 of this law, and are to be freely negotiated among operators using the procedures established by SUTEL.

- A SUTEL tax is imposed on telecom services, which is a single annual regulatory charge determined in conformity with article 59 of Law No. 7593 dated August 9, 1996. This tax will provide the resources necessary for effective management.

- A reserve tax is imposed on the radio-frequency spectrum. That tax is to be paid annually by network operators and telecom service providers with the purpose of planning, managing, and monitoring the use of the radio-frequency spectrum rather than for complying with the objectives of the tax policy. It is collected to finance SUTEL's activities pursuant to articles 7 and 8 of this law.

- Payers of the tax include network operators or telecom service providers to which bands of radio frequencies have been assigned, irrespective of whether those bands are being used. The amount to be paid for this tax is calculated directly by SUTEL considering a number of engineering and economic parameters established in the law. This tax is defined by the taxpayer in an affidavit issued for periods of one calendar year and the term for filing and paying this tax is 2 months and 15 days after the corresponding tax year-end.

*(i)* *<u>Number portability</u>*

As determined by SUTEL, the agreements between mobile telephony operators and the Number Portability Reference Entity (ERPN) were subscribed on April 25, 2013. Also, an addendum was subscribed establishing that the Number Portability system would start operations no later than November 30, 2013.

Regarding fixed portability, SUTEL issued Ruling RCS-253-2014 "Regulations for implementation of fixed number portability in Costa Rica", published on October 31, 2014. The ruling establishes mandatory implementation of portability in IP fixed and trunked telephony in June 2015. ICE filed a motion for reconsideration with an appeal to a higher court against that ruling, which is pending resolution by ARESEP.

(d) <u>Law on Strengthening and Modernization of Public Telecommunication Companies</u>

Law on Strengthening and Modernization of Public Telecommunication Companies No. 8660 was published in the Official Gazette on August 13, 2008. That law creates the telecom sector and SUTEL, which will be the agency charged with regulating, enforcing, overseeing, and monitoring the legal system governing telecommunications. Additionally, this law prescribes the duties and authority of the Ministry of Science, Technology, and Telecommunications, which Minister will be responsible for directing the sector.

The main objectives of that law are to:

- Strengthen, modernize, and endow ICE, along with its subsidiaries and attached agencies, with legislation enabling it to adapt to all changes in the rules governing the generation and delivery of electricity services, as well as telecommunications, info-communications, information goods and services, and new related services.

- Complement Executive Order No. 499 of April 8, 1949, "Creation of the Costa Rican Power and Telephone Company" and the amendments thereto, to endow ICE with the legal, financial, and administrative conditions necessary to continue providing and marketing electricity and telecom goods and services both within the country and abroad.

- Create the telecom sector and its lead agencies, as well as establish the duties and authority of the sector's Lead Minister, who together with the President of the Republic, will prepare the National Telecom Development Plan.

- Expand the mechanisms and procedures for government procurement used by ICE and its subsidiaries, and make them more nimble.

- Ensure and reassert the administrative and financial autonomy of ICE and its subsidiaries.

- Ensure accountability and the evaluation of performance by ICE and its subsidiaries.

The law authorizes ICE to form strategic partnerships and to sell advisory services, consulting services, training, and any other related product or service. It may engage in customary business practices, develop promotions, including the supply of terminal equipment (free or otherwise), discounts, sponsorships, and service packages, among others.

(Continued)

The law also empowers ICE to sign all types of trust agreements both within the country and abroad.

The law further states that when ICE and its subsidiaries act as operators or providers in competitive local markets for telecom or electricity goods and services, they shall be subject to payment of income tax and sales tax. Traditional basic telephone services are exempt from payment of income tax.

Neither the Costa Rican government nor its institutions may impose financial limitations or restrictions on the investments or borrowings of ICE and its subsidiaries that are unrelated or contrary to this law. They are also prohibited from requesting or requiring transfers or the purchase of bonds. In general, ICE and its subsidiaries may not be required to hold current account deposits or invest in government securities.

ICE is empowered to autonomously negotiate, contract, and execute medium- and long-term domestic and foreign loans up to a maximum debt ceiling of 45% with respect to its total assets. Debt will be calculated based considering the total consolidated value of the total assets of ICE and its subsidiaries as of December 31 of the prior year. Should ICE need to increase its debt ceiling to a higher percentage, it must submit the additional financing requirements for authorization by the Executive Branch of the Government of Costa Rica.

It may also issue all types of securities in local or foreign currency at the interest rate, amortization rate, and for the amount determined by the Board of Directors in accordance with applicable law. Those securities shall have the guaranty indicated by ICE and its subsidiaries in the issue agreement. For such purposes, their current and future income or assets may be securitized through financial agreements such as leases or trusts, or they may encumber their assets and income.

ICE and its subsidiaries shall have a Corporate Procurement Board responsible for carrying out the corresponding government procurement procedures, including awards and challenges.

(e) Law to Transfer Telecommunications to ICE and ICE's association with RACSA

This Law provides that the Costa Rican Power and Telephone Company (ICE) will exploit, as of the enactment of this Law, the telecom services indicated in Law No. 47 of July 25, 1921, for an indefinite term under the conditions set forth therein.

(Continued)

Through such regulations, ICE was authorized to establish a corporation funded with public and private capital that would be called Radiográfica Costarricense, S.A. (RACSA) and Compañía Radiográfica Internacional Costarricense, S.A. (CRICSA) with the purpose of exploiting telecom services for a 13-year term.

In accordance with the regulations to that Law, ICE and CRICSA would each hold 50% ownership interest. By mutual agreement, on November 29, 1975, RACSA acquired the total shares of CRICSA. Such shares were subsequently sold to ICE and ICE became the sole shareholder of RACSA. Accordingly, since ICE held a 50% ownership interest in RACSA, ICE became the sole owner of RACSA.

In 1977, Congress extended the concession for exploitation of telecom services by RACSA for another ten years. In 1985, the concession was extended for another 10 years starting in 1988. In 1992, through Law No. 7298, Congress extended RACSA's corporate term for 25 years. Finally, through Law No. 8660, published in Official Gazette No. 156 dated August 13, 2008, Congress established a 99-year term for RACSA from the effective date of this Law.

(f) Electricity Agreement

Compañía Nacional de Fuerza y Luz, S.A. (CNFL) was created through Law Agreement No. 2 of April 8, 1941 known as 1941 Electricity Agreement, which authorized the merger of the Costa Rica Electric and Traction Company, Limited, National Electricity Company, and the National Hydroelectric Company, which became Compañía Nacional de Fuerza y Luz, S.A., legally organized on May 15, 1941.

Through Law No. 4197 dated September 20, 1968, the State authorized the purchase of shares of CNFL by ICE, and the "Electricity Agreement" and "Law to Create ICE" are amended. CNFL is currently organized as a business corporation.

Through Law No. 8660 published in Official Gazette No. 156 dated August 13, 2008, Congress established a 99-year term for CNFL from the effective date of this Law.

## Note 42. Subsequent events:

*(a) Global Bank Corporation:*

In January 2015, loans were settled in the amount of US$20 (in millions), equivalent to ¢10,844.

*(In millions of colones)*

*(b) Sensitivity analysis due to variation in U.S. dollar-colón exchange rate*

In the first months of 2015, the Costa Rican colón increased with respect to the U.S. dollar. As of the date of this report, it decreased by 1.84% with respect to the exchange rate established as of December 31, 2014. The volatility in the exchange rate favored ICE Group's the liability position in U.S. dollars, which benefited its exposure to currency, liquidity, and market risks. The exchange rate as of April 21, 2015 located at ¢534.25, which implies a decrease of 1.47% with respect to the closing exchange rate. The table below presents the sensitivity to a 1.47% decrease in the colón-U.S. dollar exchange rate as of December 31, 2014.

*Sensitivity to an increase in the exchange rate:*

| | | |
|---|---|---|
| Net liability position in U.S. dollars at the closing exchange rate | US$ | (2,929) |
| Net liability position expressed in colones as of December 31, 2014 | ¢ | (1,588,162) |
| Decrease of 1,47% in exchange rate (¢534.25 as of 21/04/2015) | ¢ | (1,564,818) |
| **Gain** | ¢ | **(23,344)** |

*(c) Rate adjustments for private generation plants*

On January 12, 2015, the Official Gazette published Ruling RIE-099-2014 dated December 18, 2014, which authorizes, on behalf of ARESEP, a rate adjustment for private generation plants, which sell power to ICE and use hydroelectric and wind power generation sources under Law 7200. Such adjustment is equivalent to a 13% increase.

*(d) Transfer of the Geoenergía de Guanacaste S.R.L. Hydroelectric Power Plant to ICE*

On March 25, 2015, assets corresponding to the Geoenergía de Guanacaste S.R.L. Hydroelectric Power Plant are transferred to ICE through a BOT (Built, Operate, and Transfer) agreement, for a 15-year term beginning on the start-up of operations of the plant (see note 30).

*(e) Notice of deficiency - Ministry of Finance 2012*

Starting July, 2014, ICE was subject to a tax audit in respect of the general sales tax for the period from January to December 2012. In February 2015, the amount payable based on regulations was officially notified in the amount of ¢2,936.

*(i) Administrative proceedings*

On March 5, 2015, ICE filed administrative proceedings against the Refinadora Costarricense de Petróleo [Costa Rican Oil Refinery] (ICE) seeking the declaration of admissibility of its collection to RECOPE in relation to financial damages derived from a breach of contract. ICE quantifies such financial damages in the amount of ¢5,613. Additionally, ICE requests that RECOPE be ordered to pay the legal costs.