

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated financial statements as of March 31, 2018
(non-audited) and December 31, 2017 (audited) and for the three-
month periods ended March 31, 2018 and 2017

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated financial statements as of March 31, 2018 and December 31, 2017 and for the three-month periods ended March 31, 2018 and 2017.

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Interim consolidated statements of financial position

As of March 31, 2018 (unaudited) and December 31, 2017 (audited)

	Note	2018	2017		Note	2018	2017
		S/(000)	S/(000)			S/(000)	S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	5	592,576	44,305	Trade payables	11	1,555,616	563,643
Trade receivables, net	6	540,690	28,867	Other payables		225,847	67,761
Other receivables, net		150,569	13,587	Accounts payable to related parties	18(b)	3,664	599
Accounts receivables from related parties	18(b)	1,055,772	629	Interest-bearing loans and borrowings	12	3,398,612	14,088
Inventories, net	7	978,955	379,038	Total current liabilities		5,183,412	646,091
Prepayments		19,380	4,708				
Total current assets		3,337,942	471,134	Non current liabilities			
				Accounts payable to related parties		11,219	-
Non-current assets				Interest-bearing loans and borrowings	12	39,071	13,213
Other receivables, net		30,681	13,014	Reserves for employee retirement pension funds		25,690	-
Available for sale investments	8	-	47,092	Deferred income tax liabilities, net	13(a)	67,741	-
Prepayments		38,330	2,926	Total non-current liabilities		143,721	13,213
Property, furniture and equipment, net	9	665,373	209,357	Total liabilities		5,327,133	659,304
Investment properties		8,969	-				
Intangible assets, net	10	1,800,153	27,307	Equity			
Investment properties available for sale		3,942	-	Capital stock	14(a)	13,784	13,784
Deferred income tax assets, net	13(a)			Additional paid in capital		3,391	3,391
		62,422	12,861	Other reserves		2,449	2,449
Other assets		81	-	Unrealized results from foreign currency translation		(423)	-
Total non-current assets		2,609,951	312,557	Unrealized results from valuation of available for sale investments		-	280
				Retained earnings		121,415	104,483
Total assets		5,947,893	783,691	Equity attributable to owners of the parent		140,616	124,387
				Non-controlling interest		479,817	-
				Total equity		620,433	124,387
				Total liabilities and equity		5,947,893	783,691

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

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated Income statements

For the three-month periods ended March 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net sales of goods		1,330,166	636,268
Rendering of services		49,148	25,804
Revenue		<u>1,379,314</u>	<u>662,072</u>
Cost of sales	16	(974,955)	(449,396)
Gross profit		404,359	212,676
Selling expenses	16	(289,299)	(154,939)
Administrative expenses	16	(65,491)	(15,672)
Other operating (expenses) income		8,598	(1,239)
Operating profit		58,167	40,826
Financial income		14,504	699
Financial expenses	17	(28,766)	(490)
Exchange difference, net		(11,823)	(772)
Profit before income tax		32,082	40,263
Income tax expense	13(a)	(16,677)	(12,287)
Net profit		15,405	27,976
Attributable to:			
InRetail Pharma S.A. Shareholders		16,932	27,976
Non-controlling interest		(1,527)	-
Net profit		15,405	27,976
Earnings per share:			
Basic and diluted profit for the period attributable to InRetail Pharma shareholders	19	1.23	2.03

All items above are related to continuing operations.

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

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated statements of comprehensive income
For the three-month periods ended March 31, 2018 and 2017

	2018	2017
	S/(000)	S/(000)
Profit for the period	15,405	27,976
Other comprehensive income		
Unrealized loss on available-for-sale investments	-	(748)
Transfer of realized loss on available-for-sale investments to result of the period	(397)	
Income tax effect	117	30
	(280)	(718)
Unrealized loss from foreign currency translation	(579)	-
	(579)	-
Other comprehensive income for the period, net of income tax effects	(859)	(718)
Total comprehensive income for the period	14,546	27,258
Attributable to:		
InRetail Pharma S.A. shareholders	16,229	27,258
Non-controlling interest	(1,683)	-
Total comprehensive income for the period	14,546	27,258

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

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated statements of change in equity

For the three-month periods ended March 31, 2018 and 2017

	Capital stock S/(000)	Capital premium S/(000)	Others reserves S/(000)	Unrealized results on financial instruments S/(000)	Unrealized results on foreign currency translation S/(000)	Retained earnings S/(000)	Total S/(000)	Non- controlling interest S/(000)	Total equity S/(000)
Balance as of January 1, 2017	13,784	3,391	2,449	3,133	-	138,003	160,760	-	160,760
Profit for the period	-	-	-	-	-	27,976	27,976	-	27,976
Other comprehensive income	-	-	-	(718)	-	-	(718)	-	(718)
Total comprehensive income	-	-	-	(718)	-	27,976	27,258	-	27,258
Dividends	-	-	-	-	-	(35,000)	(35,000)	-	(35,000)
Balance as of March 31, 2017	13,784	3,391	2,449	2,415	-	130,979	153,018	-	153,018
Balance as of January 1, 2018	13,784	3,391	2,449	280	-	104,483	124,387	-	124,387
Profit for the period	-	-	-	-	-	16,932	16,932	(1,527)	15,405
Other comprehensive income	-	-	-	(280)	(423)	-	(703)	(156)	(859)
Total comprehensive income	-	-	-	(280)	(423)	16,932	16,229	(1,683)	14,546
Non controlling participation from subsidiary acquisition	-	-	-	-	-	-	-	481,500	481,500
Balance as of March 31, 2018	13,784	3,391	2,449	-	(423)	121,415	140,616	479,817	620,433

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

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Interim consolidated statements of cash flows

For the three-month periods ended March 31, 2018 and 2017

	2018 S/(000)	2017 S/(000)
Operating activities		
Revenue	1,333,918	674,552
Payment of goods and services to suppliers	(1,088,221)	(537,311)
Payment of salaries and social benefits to employees	(167,432)	(83,178)
Taxes paid	(20,149)	(13,398)
Other (payments) collections, net	29,248	1,657
Net cash flows used in (from) operating activities	87,364	42,322
Investing activities		
Sale of available for-sale investments	46,812	-
Purchase of Subsidiary	(1,871,430)	-
Purchase of property, furniture and equipment, net of acquisitions through leasing	(4,350)	(6,640)
Loans granted to related parties	(1,039,738)	-
Purchase and development of intangible assets	(21,890)	(1,284)
Net cash flows used in investing activities	(2,890,596)	(7,924)
Financing activities		
Proceeds from interest-bearing loans and borrowings	3,241,050	-
Capital contribution of non-controlling interest	481,500	-
Repayment of interest-bearing loans and borrowings	(345,253)	(4,573)
Payment of dividends	-	(35,000)
Interest paid	(25,794)	(447)
Net cash flows from (used in) financing activities	3,351,503	(40,020)
Net increase (decrease) of cash and short-term deposits	548,271	(5,622)
Cash and short-term deposits at the beginning of the period	44,305	33,412
Cash and short-term deposits at the end of the period	592,576	27,790
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	6,661	2,463

The accompanying notes are an integral part of these consolidated statements

Notes to the interim consolidated financial statements (continued)

InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of March 31, 2018 and December 31, 2017 and for the three month period ended March 31, 2018 and 2017

1. Business activity

InRetail Pharma S.A. (formerly Eckerd Perú S.A. and, hereinafter “the Company”), was incorporated in August 2, 1996. As of March 31, 2018 and December 31, 2017, the Company is a subsidiary of InRetail Peru Corp. which holds 100 percent of the Company’s capital stock. Likewise, InRetail Perú Corp. is a subsidiary of Intercorp Retail Inc., which is one of the entities of the Intercorp Perú Group operating in Peru and abroad.

The Company’s legal address, where its administrative offices operate, is Av. Del Morro N ° 1277, Chorrillos, Lima, Republic of Peru.

The Company and its Subsidiaries Boticas del Oriente S.A.C., Eckerd Amazonia S.A.C. and Quicorp S.A. and Subsidiaries (hereinafter and together “InRetail Pharma Group”) are mainly dedicated to operating pharmacies and to the distribution of pharmaceutical products. The InRetail Pharma Group operations are concentrated in the Andean region, with its core market in Perú.

At the General Shareholders' Meeting held on February 27, 2018, it was agreed to change the Company's name of Eckerd Perú S.A. to InRetail Pharma S.A.

On December 2017, the Company, incorporated IR Pharma S.A.C. (formerly Chakana Salud S.A.C.), in order to implement various investment projects.

The accompanying interim consolidated financial statements as of March 31, 2018 were approved by the Board of Directors on May 15, 2018.

2. Quicorp Group acquisition

On January 2018, the Company (as the Parent Company) incorporated in January 2018 IR Pharma S.A.C., for the acquisition of 100 percent of Quicorp S.A. and its Subsidiaries (hereinafter and jointly, “Quicorp”): Química Suiza Comercial S.A.C., Química Suiza S.A.C., Cifarma S.A.C., Mifarma S.A.C., Empresa Comercializadora Mifarma S.A., Botica Torres de Limatambo S.A.C., BTL Amazonía S.A.C., Vantitive S.A.C., Farmacias Peruanas S.A., Drogueria La Victoria S.A.C., Vanttive Cía Ltda., Quifatex S.A., Quimiza Ltda, Quideca S.A., Albis S.A.C., Jorsa de la Selva S.A.C. and Superfarma Mayorista S.A. These entities operate in the manufacturing, distribution and retail segments within the pharmaceutical sector in Peru, Ecuador, Bolivia and Colombia.

The purchase price for the acquisition of Quicorp was approximately US\$583 million, which was partially funded with a US\$1,000 million bridge loan at one-year maturity, and at an LIBOR plus a spread interest rate. Such bridge loan was obtained by InRetail Pharma S.A. (formerly Eckerd Perú S.A.) from Citibank N.A. and JP Morgan Chase Bank N.A. Likewise, such bridge loan has been partially used for the aforementioned acquisition and, the difference, mainly for the restructuring of several debts obtained by related parties.

On the other hand, at the date of this report, the acquisition of Quifatex S.A. and Subsidiaries (subsidiaries of Quicorp operating in Ecuador), is subject to the authorization of the market regulator in Ecuador (“SCPM”, by its acronym in Spanish), therefore, Quifatex S.A.’s common shares have been contributed to trusts incorporated in Ecuador and Peru, pending the decision of SCPM, which is expected to occur during the first semester 2018.

Notes to the interim consolidated financial statements (continued)

3. Subsidiary activities

The Company and its Subsidiaries (hereinafter the "InRetail Pharma Group") are dedicated to the commercialization, manufacturing, distribution and marketing, to level nationally and internationally, of pharmaceutical products, cosmetics, food for medical use and other foods intended for protection and recovery of health through its "Inkafarma and Mifarma" pharmacy chains. The company and its subsidiaries operate approximately 2,200 stores as of March 31, 2018 (1,057 stores of only Inkafarma as of December 31, 2017) and have operations in Peru, Colombia, Ecuador and Bolivia.

Following is the description of the activities of the main Subsidiaries of the Company:

- (a) Eckerd Amazonia S.A.C. - was incorporated and started its activities in September 2001. It is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its "Inkafarma" pharmacy chain. As of March 31, 2018, operates 52 stores (52 as of December 31, 2017). This Subsidiary's legal address is Ejército Avenue 1283, Loreto, Iquitos, Peru.
- (b) Boticas del Oriente S.A.C. was incorporated and started its activities in December 2007. It is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its "Inkafarma" pharmacy chain. As of March 31, 2018, operates 44 stores (44 stores as of December 31, 2016). This Subsidiary's legal address is Ejército Avenue 1283, Loreto, Iquitos, Peru.
- (c) IR Pharma S.A.C. (formerly Chakana Salud S.A.C.), was incorporated in December 2017 only for the acquisition of 100 percent of Quicorp Group.
- (d) Quicorp S.A. is a Holding incorporated in the Republic of Peru in September 2010, and maintains 100 per cent of the assets of Química Suiza Comercial S.A.C. which in turn maintains 100 percent of the equity of the following Companies:
 - i. Química Suiza S.A.C.
It was incorporated in Peru on March 6, 1939 and its registered office is located at Av. República de Panama N° 2577, La Victoria, Peru.

It is dedicated to the import, representation, and commercialization of pharmaceutical, food, cosmetic, chemical and liquor products nationwide, as well as other consumable products in general. In addition, it receives commissions for acting as broker in the sale of raw materials for foreign suppliers and income from various service provision.
 - ii. Cifarma S.A.C.
It was incorporated in Peru on July 1, 1992. It is a Subsidiary of Química Suiza S.A., which owns 99.99% of its capital from October, 2010. Up to September 30, 2010, Cifarma S.A. was a Subsidiary of Roxilan S.A., a company incorporated in Switzerland, which owned 71.96% of its capital. The registered office of Cifarma S.A. is located at Carretera Central Km. 3 N° 1315 Santa Anita, Lima, Perú.

It is dedicated to providing services related to manufacturing and packaging of pharmaceutical, cosmetic and chemical products, with Química Suiza S.A. as its main client.

Notes to the interim consolidated financial statements (continued)

iii. Mifarma S.A.C.

Is a Subsidiary of Química Suiza S.A., which owns 99.99% of its capital. It was incorporated on November 22, 2005. The registered office is located at Calle Víctor Alzamora N° 147, Urb. Santa Catalina, La Victoria.

It is dedicated to wholesale and retail of pharmaceutical, cosmetic, perfumery, toilet, hygiene and personal care and other products for health protection and recovery through its chain of 515 establishments nationwide (515 establishments in 2017).

On April, 30, 2013, Mifarma S.A.C. acquired 98% of shares of Empresa Comercializadora Mifarma S.A. and became a Subsidiary of Mifarma S.A.C. It was incorporated in La Paz, Bolivia on March 12, 2010.

At the General Shareholders' Meeting held on March 15, 2018, the merger of the Company with Mifarma S.A.C. was agreed, in which Mifarma would act as the acquiring company, therefore Farmacias Peruanas S.A. would be extinguished without the need to be dissolved or liquidated.

In the General Shareholders' Meeting of March 31, 2018, it was agreed to reduce the share capital by S/4,818,000 corresponding to the participation of La Fiduciaria S.A. through a payment of S/11,599,128, equivalent to the equity value of its participation.

iv. Empresa Comercializadora Mifarma S.A.

It was incorporated in La Paz, Bolivia on March 12, 2010.

It is dedicated to the import, export, purchase, sale, production, by itself or third parties, and trade of all pharmaceutical and medical products in general belonging to local and foreign companies it represents.

v. Botica Torres de Limatambo S.A.C.

It is an indirect Subsidiary of Química Suiza S.A. since February 8, 2011, when all shares were transferred. It was incorporated in Lima, Peru on January 9, 1997, starting operations on the same date. Its registered office and administrative offices are located at Calle Victor Alzamora 147, Urb. Santa Catalina, La Victoria.

By means of the merger by absorption agreement effective December 1, 2017, Moviler S.A., Assa Investments S.A., Assa Inversiones S.A., BTL Amazonía S.A.C. and Drogpharma S.A.C. were absorbed by Boticas Torres de Limatambo S.A.C. the latter receiving the universal and block transfer of the entire assets of the absorbed companies which have been extinguished without needing to be dissolved or liquidated, in accordance with the provisions of article 344 (2) of the Companies Act.

Botica Torres de Limatambo S.A.C. is dedicated to the commercialization of pharmaceutical, toilet, personal hygiene and bazaar products in general through its 102 establishments nationwide (102 stores in 2017).

Notes to the interim consolidated financial statements (continued)

vi. BTL Amazonía S.A.C.

It was incorporated on April 27, 2005. It is a Subsidiary of Botica Torres de Limatambo S.A.C., which is controlled through Mobiler S.A. by Quimica Suiza S.A. since February 8, 2011, when all shares were transferred.

It is dedicated to the commercialization of pharmaceutical, toilet, personal hygiene and bazaar products in general through its 3 drugstore in Iquitos, a city exempted from sales tax. The credit is subject to tax rebate.

vii. Vanttive S.A.C.

It was incorporated in Peru on July 11, 2012. It is a direct Subsidiary of Quimica Suiza S.A., a company incorporated in Peru, which owns 99.99% of its capital stock as of December 31, 2017. The registered office is located at Av. República de Panamá N°2577, La Victoria, Lima.

It is dedicated to wholesale and retail, storage, distribution, counter sale, and manufacture of health natural and pharmaceutical products, specifically for patients subject to cancer treatment.

Furthermore, it may provide services like medical centers under the category of doctor's office with the purpose of prevention, promotion, diagnosis, medical treatment, and rehabilitation in order to keep people healthy.

viii. Farmacias Peruanas S.A.

It was incorporated on June 9, 1996 and the registered office is located at Calle Víctor Alzamora N° 147, La Victoria, Lima, Perú.

On April 1, 2016, the General Stockholders' Meeting of Quifatex S.A. granted a power of representation in favor of the subsidiary Mifarma S.A.C. to make decisions it deems appropriate related to its majority interests in the General Stockholders' Meeting of the subsidiaries Farmacias Peruanas S.A. (hereinafter "FASA") and Droguería La Victoria S.A.C. (hereinafter "DLV") effective as of April 1, 2016.

The power granted by Quifatex S.A. to Mifarma S.A.C. transferred basically the decisions on relevant activities about FASA and DLV management. Besides, such situation did not modify the previous agreement between FASA and Mifarma S.A.C.

The separate financial statements of Quifatex S.A., FASA and DLV will remain without effect due to the loss of control, for this reason, the last two entities will be part of the consolidated financial statements of Mifarma S.A.C.

At the General Shareholders' Meeting held on March 15, 2018, the merger of the Company with Mifarma S.A.C. was agreed, in which Mifarma would act as the acquiring company, therefore Farmacias Peruanas S.A. would be extinguished without the need to be dissolved or liquidated.

Notes to the interim consolidated financial statements (continued)

- ix. Droguería la Victoria S.A.C.
It was incorporated on August 17, 1998 and the registered office is located at Av. Republica de Panamá N° 2577, La Victoria, Lima.
- It is dedicated to the import and distribution of dietary and natural pharmaceutical products as well as toilet, perfumery, beauty and other related products.
- On April 1, 2016 the General Sotckholders' Meeting of Quifatex granted a power of representation in favor of the subsidiary Mifarma S.A.C. to make decisions it deems appropriate related to its majority interests in the General Stockholders' Meetings of the subsidiaries Farmacias Peruanas S.A. (hereinafter "FASA") and Droguería La Victoria S.A.C. (hereinafter "DLV") effective as of April 1, 2016.
- At the General Shareholders' Meeting held on March 15, 2018, the merger of the Company with Mifarma S.A.C. was agreed, in which Mifarma would act as the acquiring company, therefore Droguería La Victoria S.A.C. would be extinguished without the need to be dissolved or liquidated.
- x. Quifatex S.A.
It was incorporated on May 26, 1978 in the city of Quito, Ecuador. The registered office is located at Av. 10 de Agosto 10640 y Manuel Zambrano, Quito, Ecuador. It is controlled and supervised by the Superintendence of Corporations in the Republic of Ecuador.
- It is dedicated to the commercialization, distribution, representation, import, and export of pharmaceutical, dietary, chemical, cosmetic, food, veterinary, insecticidal, fertilizing and liquor products, and well as tools and machinery in general.
- xi. Vanttive Cía. Ltda.
It was incorporated on July 17, 2003 in the city of Quito, Ecuador. The registered office is located at Av. 10 de Agosto 10640 y Manuel Zambrano, Quito, Ecuador. It is controlled and supervised by the Superintendence of Corporations in the Republic of Ecuador.
- It is dedicated to the import, export, commercialization, distribution, and intermediation of specialized pharmaceutical products.
- xii. Quimiza Ltda.
It was incorporated on August 26, 1978. It also has distributors in the cities of Tarija, Oruro, and Potosí, as well as a distribution center in Santa Cruz, Bolivia. In addition, it may establish offices, agencies, and branches in other districts of the country. Currently, it has four offices in the cities of Santa Cruz (main office), La Paz, Cochabamba, and Sucre.
- It is dedicated to the manufacture, commercialization, distribution, import, export, and representation of chemical, pharmaceutical, dietary, veterinary, cosmetic, insecticidal and fertilizing products, as well as machinery and equipment for the industry and consumables in general. Currently, it imports and commercializes pharmaceutical, industrial, consumption and veterinary products, expanding its market by signing new representation agreements.

Notes to the interim consolidated financial statements (continued)

- xiii. **Quideca S.A.**
It was incorporated on March 13, 2006 in Bogota, Colombia and is legally effective up to March 13, 2056.
- It is dedicated to the purchase, sale, commercialization, promotion, distribution, representation, import, and export of health and pharmaceutical products, including vaccines, food, cosmetic, hygiene, personal care and home products. It also trades pesticides, herbicides, insecticides, fertilizers, chemical and agrochemical products, construction additives, tools, and equipment.
- xiv. **Albis S.A.C.**
Is a private legal entity incorporated in 1998 as a result of the merge of Distribuidora Albis S.A. with Albis Data S.A.
- It is dedicated to the commercialization of pharmaceutical, cosmetic, perfumery, toilet, hygiene and personal care and other products for health protection and recovery, nationwide.
- xv. **Jorsa de la Selva S.A.C.**
Is a legal entity, Subsidiary of Albis S.A., mainly dedicated to the commercialization of pharmaceutical, cosmetic, perfumery, toilet, hygiene, personal care and other products for health protection and recovery. The Company's registered office is located at Av. Elías Aguirre 1107, Iquitos, Maynas.
- xvi. **Superfarma Mayorista S.A.C.**
Is a stock corporation incorporated by means of a public instrument dated January 20, 2016 and clarifying public instrument dated February 1, 2016.
- The Company's registered and administrative offices are located at Av. República de Panamá 2537, Urb. Santa Catalina, La Victoria, Lima.

Notes to the interim consolidated financial statements (continued)

4. Basis of preparation and presentation

(a) Interim financial statements

The consolidated financial statements of the InRetail Pharma Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB), effective as of March 31, 2018 and December 31, 2017, respectively.

The interim financial statements of the InRetail Pharma Group have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited annual information.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in Soles and all values are rounded to the nearest thousand (S/(000)), except when otherwise indicated.

The functional currency of the subsidiaries domiciled in Ecuador, Bolivia and Colombia are the local currency in those countries. These currencies do not belong to hyperinflationary economies. All transactions are measured in the functional currency.

The result and the financial position of all the Group companies (none of which has the currency for a hyperinflationary economy), that have a functional currency other than the InRetail Pharma S.A.'s presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented (including comparatives) shall be translated at the closing exchange rate at the date of the statement of financial position;
- Income and expenses for each statement presenting profit or loss and other comprehensive income (including comparatives) shall be translated at the average exchange rates for the corresponding year;
- Equity accounts shall be translated at the exchange rates at the date of the transactions; and
- All resulting exchange differences shall be recognized in other comprehensive income as profit or loss on translation.

At the date of this report, all the entities consolidated into the accompanying financial statements are legal subsidiaries of InRetail Pharma S.A.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, see Note 2.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the InRetail Pharma Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The non-controlling interests have been determined in proportion to the participation of minority shareholders in the net equity and the results of the subsidiaries in which they hold shares, and they are presented separately in the consolidated statement of financial position and the consolidated statement of comprehensive income.

Notes to the interim consolidated financial statements (continued)

Losses in a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of the subsidiary, without a loss of control, is accounted for as an equity transaction.

The accounting policies followed in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as of December 31, 2017.

(c) New accounting standards

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Companies annual combined financial statements for the year ended December 31, 2017, except for the adoption of the new standards and interpretations as of January 1, 2018.

The standards and amendments, and improvements to the standards that are issued, but not yet effective up to the date of issuance of the accompanying consolidated financial statements, are disclosed below:

(i) IFRS 9 “Financial Instruments” -

In July 2014, the IASB issued the final version of IFRS 9 “Financial Instruments” that replaces IAS 39 “Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on 1 January 2018.

The Company and its Subsidiaries plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Company and its Subsidiaries have performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available in 2018 when the Company and its Subsidiaries will adopt IFRS 9. Overall, the Company and its Subsidiaries expect no significant impact on its consolidated statement of financial position and equity.

(ii) IFRS 15 Revenue from Contracts with Customers -

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS, such as IAS 18 “Revenues” and IAS 11 “Construction Contracts”. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company and its Subsidiaries plan to adopt the new standard on the required effective date using the modified retrospective method. During 2017, the Company and its Subsidiaries performed a preliminary assessment of IFRS 15, and they are evaluating the quantitative effects for the adoption of this standard.

The Company and its Subsidiaries are mainly dedicated to the commercialization, to final customers, of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through separate identified contracts with customers. Generally, these sales occur when the goods are transferred to the final customers in the stores operated by the Company and its Subsidiaries; additionally, the collection for such sales is usually made by cash or by credit cards.

Notes to the interim consolidated financial statements (continued)

(a) Sale of goods -

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Company and its Subsidiaries' revenue and profit or loss. The Company and its Subsidiaries expect the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Otherwise, the Company and its Subsidiaries have identified that their only significant variable consideration correspond to some contracts with customers that provide a right of return. According to the current accounting practice, when a contract with a customer provides a right of return in a specific period, the Company and its subsidiaries recognize such right over a historical estimate of returns basis, which is similar to the criteria accepted by IFRS 15. Consequently, income related to the expected returns is adjusted with expenses provisions in the consolidated statements of comprehensive income, when they directly affect the caption "Net sales".

(b) Presentation and disclosure requirements -

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a change from current practice and increases the volume of disclosures required in the Company and its Subsidiaries' consolidated financial statements. Many of the disclosure requirements in IFRS 15 are new; however, such disclosure requirements have no effect on results and operations. In particular, the Company and its Subsidiaries expect that the notes to the consolidated financial statements will be expanded because of the disclosure of significant judgments made when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices.

(c) Other adjustments -

On adoption of IFRS 15, other items of the consolidated financial statements will be adjusted or reclassified, if necessary.

(iii) IFRS 16 "Leases" -

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. As of the date of this report, the Company and its Subsidiaries are assessing the possible impact of the application of IFRS 16 on its consolidated financial statements. The Company and its Subsidiaries intend to adopt this standard when it is effective.

(iv) Other standards, amendments and improvements to the standards –

- IFRS 17 "Insurance Contracts", effective for annual periods beginning on 1 January 2021.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration", effective for annual periods beginning on 1 January 2018.

Notes to the interim consolidated financial statements (continued)

- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”, effective for annual periods beginning on 1 January 2019.
- Annual Improvements 2014-2016 Cycle (issued in December 2016), effective for annual periods beginning on 1 January 2018.
- Annual Improvements 2015-2017 Cycle, effective for annual periods beginning on 1 January 2019.
- Amendments to IAS 28 Investments in Associates and Joint Ventures, effective for annual periods beginning on 1 January 2019.
- Amendments to IAS 40 - Transfers of Investment Property, effective for annual periods beginning on 1 January 2018.
- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2, effective for annual periods beginning on 1 January 2018.
- Amendments to IFRS 4 - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”, effective for annual periods beginning on 1 January 2018.
- Amendments to IFRS 9, effective for annual periods beginning on 1 January 2019.
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (deferred indefinitely).
- Amendments to IFRS 15 – Clarification, effective for annual periods beginning on 1 January 2018.

The Company and its Subsidiaries intend to adopt these other standards amendments and improvements to the standards, when they become effective. As of the date of this report, Management has not yet finished the process of diagnosis and evaluation of the adoption effects of these standards in its processes of preparation and report of consolidated financial information, and in the preparation and presentation of its consolidated financial statements, including new disclosure requirements.

5. Cash and short-term deposits

- (a) The table below presents the components of this account:

	As of March 31, 2018	As of December 31, 2017
	S/(000)	S/(000)
Cash (b)	5,590	3,770
Current accounts (c)	509,737	26,331
Time deposits (d)	40,648	-
Cash in transit	36,601	14,204
Total	592,576	44,305

- (b) Comprises mainly cash held by subsidiaries in the premises of their store chains and in the vaults of a security company, corresponding to sales during the last days of the period.

Notes to the interim consolidated financial statements (continued)

- (c) The company and its subsidiaries maintain current accounts in local banks in Soles and US Dollars which do not accrue interest and they are freely available.
- (d) The time deposits are freely available and are kept in local banks in Soles and US Dollars, have maturities up to one month since inception and bear annual interest rates between 1.70 and 2.80 percent in Soles and 1.45 percent in US Dollars (between 4.15 and 4.70 percent in Soles and between 0.20 and 0.30 percent in US Dollars as of December 31, 2017).

6. Trade receivables, net

- (a) The table below presents the components of this caption:

	As of March 31, 2018	As of December 31, 2017
	S/(000)	S/(000)
Trade accounts receivable (c)	556,877	6,304
Credit card operators (d)	17,363	21,644
Others	16,579	976
Total	590,819	28,924
Provision for doubtful accounts (e)	(50,129)	(57)
Total	540,690	28,867

- (b) Trade receivables are denominated in Soles, have current maturity and do not bear interest.
- (c) Corresponds to accounts receivable from the sale of goods and services to various local and foreign companies.
- (d) Corresponds mainly to pending deposits in favor of InRetail Pharma Group for the last days of the month, held by credit card operators and originated from the sale of goods with credit cards in the different stores of InRetail Pharma Group.
- (e) Movements in the provision for doubtful accounts receivable for the three-months periods ended March 31, 2018 and 2017, were as follows:

	2018	2017
	S/(000)	S/(000)
Balance at the beginning of the year	57	344
Subsidiary acquisition	51,054	-
Provision recognized as expense, Note 16 (a)	2,069	1
Recoveries, Note 16 (a)	(1,443)	-
Write offs	(1,549)	-
Foreign currency variation	(59)	-
Balance at the end of the period	50,129	345
Balance as of December 31, 2017		57

Notes to the interim consolidated financial statements (continued)

In the opinion of Management of the InRetail Pharma Group, the provision for doubtful accounts receivable as of March 31, 2018 and December 31, 2017, appropriately covers the credit risk of this item at those dates.

7. Inventories, net

- (a) The composition of this item is presented below:

	As of March 31, 2018	As of December 31, 2017
	S/(000)	S/(000)
Goods, Note 16 (a)	962,249	378,527
In transit inventories (b)	32,234	5,261
Raw material, Note 16 (a)	7,692	-
Miscellaneous supplies	7,263	1,720
Miscellaneous supplies for manufacturing, Note 16 (a)	1,260	-
Finished goods, Note 16 (a)	95	-
Total	1,010,793	385,508
Minus		
Provision for impairment of inventories (c)	(31,838)	(6,470)
Total	978,955	379,038

- (b) Corresponds to goods and miscellaneous supplies imported by the InRetail Pharma Group in order to satisfy customers' demand in its stores.
- (c) The movement in the provision for inventory impairment for the three-month periods ended March 31, 2018 and 2017, was as follows:

	2018	2017
	S/(000)	S/(000)
Balance at the beginning of the year	6,470	7,921
Subsidiary acquisition	26,787	-
Provision of the period, Note 16 (a)	6,627	3,844
Write-off	(8,046)	(7,921)
Balance at the end of the period	31,838	3,844
Balance as of December 31, 2017		6,470

The provision for inventory impairment is determined based on stock turnover, discounts granted for the liquidation of the merchandise and other characteristics based on periodic evaluations performed by the Management of the InRetail Group.

8. Available-for-sale investment

As of December 31, 2017, available for sale investments corresponded to notes issued by a related company of Intercorp Group of approximately US\$ 14,453,000, equivalent to S/47,072,000, that were sold in the first quarter of 2018. The unrealized loss, net of deferred income tax, of the notes held as of December 31, 2017 amounted to S/718,000 and is presented in the equity.

Notes to the interim consolidated financial statements (continued)

9. Property, furniture and equipment, net

(a) The table below presents the movement and composition of this caption:

	As of March 31, 2018	As of December 31, 2017
	S/(000)	S/(000)
Cost		
Initial balance	406,707	389,937
Subsidiary acquisition, net of depreciation	461,359	-
Additions (b)	11,011	30,144
Disposals and/or sales (c)	(14,363)	(13,374)
Foreign currency translation	(216)	-
Final balance	864,498	406,707
Accumulated depreciation		
Initial balance	197,350	162,586
Additions (d)	16,372	41,834
Disposals and/or sales	(12,485)	(7,070)
Foreign currency translation	(158)	-
Final balance	201,079	197,350
Impairment		
Additions	(222)	-
Disposals and/or sales	(1,732)	-
	(1,954)	-
Net book value	665,373	209,357

- (b) Additions for the three-month periods ended March 31, 2018 and 2017 correspond mainly to the construction and equipment of new premises for InRetail Pharma Group.
- (c) It mainly correspond to assets sold and to the disposals of unusable assets as a result of the process of change of format in some premises. The resulting income or expense has been included in the "Other operating income" or "Other operating expenses" caption of the consolidated income statement, respectively.
- (d) Depreciation expense for the three-month periods ended March 31, 2018 and 2017, was recorded as follows in the income statement:

	2018	2017
	S/(000)	S/(000)
Sales expenses, Note 16 (a)	14,010	8,581
Administrative expenses, Note 16 (a)	2,362	1,259
Balance as of March 31	16,372	9,840
Balance as of December 31, 2017		41,834

Notes to the interim consolidated financial statements (continued)

- (e) As of March 31, 2018 the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/139,942,000 and S/64,668,000, respectively (S/87,731,000 and S/46,896,000, respectively, as of December 31, 2017).
- (f) The InRetail Pharma Group maintains insurance policies on their main assets in accordance with the policies established by Management.

10. Intangible assets, net

(a) The table below presents the movements and composition of this caption:

	As of March 31, 2018 S/(000)	As of December 31, 2017 S/(000)
Cost		
Initial balance	53,087	46,796
Subsidiary acquisition, net of depreciation	36,095	-
Additions (c)	21,890	6,415
Disposal and/or sales	(8,103)	(124)
Foreign currency translation	(18)	-
Final balance	102,951	53,087
Accumulated amortization		
Initial balance	25,780	21,289
Additions (d)	2,413	4,518
Disposals and/or sales	(8,046)	(27)
Foreign currency translation	(12)	-
Final Balance	20,135	25,780
Goodwill		
Initial balance	-	-
Subsidiary acquisition	257,205	-
Additions (b)	1,460,132	-
Final balance	1,717,337	-
Net, book value	1,800,153	27,307

- (b) As of March 31, 2018, this caption mainly includes the goodwill, as a result of the acquisition of the Quicorp Group. Purchase price for the acquisition of Quicorp was approximately US\$583,000,000 equivalent to S/1,871,430,000 and at the date of acquisition, the net assets of the acquired company amounted to S/411,298,000.

Upon obtaining control, the Group will apply the purchase method established in IFRS 3 "Business Combination" to determine the acquired goodwill. As of March 31, 2018, the Company is in the process of evaluating the allocation exercise of the purchase price and its respective determination of goodwill.

- (c) As of March 31, 2018, corresponds mainly to the purchase of brands made in the acquisition of the Quicorp Group for S / 17,040,000.

Notes to the interim consolidated financial statements (continued)

As of March 31, 2018 and December 31, 2017, it also includes disbursements for the acquisition of a commercial software program, and related licenses; and disbursements for implementation of software and licenses in new stores of the InRetail Pharma Group. Such disbursements include the acquisition of usage licenses, development costs and other directly attributable costs.

- (d) Amortization expense for the three-month periods ended March 31, 2018 and 2017 has been recorded in the following items of the combined statements:

	2018 S/(000)	2017 S/(000)
Sales expenses, Note 16 (a)	1,755	847
Administrative expenses, Note 16 (a)	658	142
Balance as of March 31	2,413	989
Balance as of December 31, 2017		4,518

11. Trade payables

The table below presents the composition of this caption:

	As of March 31, 2018 S/(000)	As of December 31, 2017 S/(000)
Bills payable from purchase of goods	1,407,516	537,100
Bills payable from commercial services	148,100	26,543
Total	1,555,616	563,643

This item mainly includes the obligations to non-related local and foreign suppliers, denominated in local currency and US Dollars, originated mainly from the acquisition of goods, with current maturities and that do not bear any interest. There have been no liens granted on these obligations.

InRetail Pharma Group offers its suppliers access to an accounts payable service arrangement provided by third party financial institutions. This service allows the suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution, enabling suppliers to better manage their cash flow and reduce payment processing costs. InRetail Pharma Group has no direct financial interest in these transactions. All of InRetail Pharma Group's obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

Notes to the interim consolidated financial statements (continued)

12. Interest-bearing loans and borrowings

(a) The table below presents the composition of interest-bearing loans and borrowings:

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount			Total		Current		Non-current	
				US\$ (000)	\$ (000)	S/(000)	2018	2017	2018	2017	2018	2017
							S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Securitized Notes												
Securization of Quifatex's future cash flows	USD	8.250	2018	15,000	-	-	5,812	-	5,812	-	-	-
				15,000	-	-	5,812	-	5,812	-	-	-
Leasings												
Related entities												
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	-	27,412	8,844	10,142	6,179	5,923	2,665	4,219
Non related entities												
BBVA Banco Continental	PEN	Between 5.900 and 6.900	2019	-	-	1,717	537	-	508	-	29	-
Banco Santander del Perú	PEN	Between 6.900 and 7.650	2022	-	-	13,035	1,111	-	471	-	640	-
Banco Scotiabank	PEN	7.550	2019	-	-	12,528	1,629	-	1,539	-	90	-
Banco de Crédito del Perú	PEN	7.560	2020	-	-	111	101	-	36	-	65	-
BBVA Banco Continental	PEN	Between 6.300 and 7.600	2019	-	-	1,179	394	-	232	-	162	-
Banco Santander del Perú	PEN	Between 7.250 and 8.330	2020	-	-	1,756	609	-	484	-	125	-
Banco de Crédito del Perú	PEN	8.580	2018	-	-	81	68	-	68	-	-	-
				-	-	57,819	13,293	10,142	9,517	5,923	3,776	4,219

Notes to the interim consolidated financial statements (continued)

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount		Total		Current		Non-current		
				US\$ (000)	US\$ (000)	S/(000)	2018	2017	2018	2017	2018	2017
							S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Notes and Loans												
Non related entities												
Citibank NA / JP Morgan (b)	USD	Libor1M + 1.5%	2019	1,000,000	-	-	3,195,923	-	3,195,923	-	-	-
BBVA Banco Continental (d)	PEN	Between 2.790 and 3.150	2018	-	-	35,000	35,000	-	35,000	-	-	-
Banco de Crédito del Perú (f)	PEN	Between 2.650 and 3.140	2018	-	-	42,000	42,000	-	42,000	-	-	-
Banco Scotiabank (c)	PEN	Between 2.700 and 3.250	2018	-	-	25,000	25,000	-	25,000	-	-	-
Banco de Crédito del Perú (f)	PEN	3.550	2018	-	-	800	800	-	800	-	-	-
BBVA Banco Continental (d)	PEN	3.050	2018	-	-	1,473	1,473	-	1,473	-	-	-
BBVA Banco Continental (d)	PEN	3.050	2018	-	-	1,300	1,300	-	1,300	-	-	-
BBVA Banco Continental (d)	PEN	3.150	2018	-	-	500	500	-	500	-	-	-
Banco Bolivariano	USD	7.120	2020	7,800	-	-	16,306	-	10,250	-	6,056	-
Banco Citibank (i)	USD	6.914	2018	3,000	-	-	9,687	-	9,687	-	-	-
Banco Guayaquil (j)	USD	6.860	2018	7,000	-	-	17,046	-	11,487	-	5,559	-
Banco Internacional (h)	USD	6.500	2018	3,700	-	-	11,947	-	11,947	-	-	-
Banco Pacifico	USD	7.200	2020	1,000	-	-	2,486	-	1,065	-	1,421	-
Banco Pichincha (g)	USD	7.000	2018	5,900	-	-	19,051	-	19,051	-	-	-
Produbanco	USD	7.710	2022	5,000	-	-	13,150	-	3,074	-	10,076	-
Banco Pichincha (g)	USD	7.000	2018	3,875	-	-	2,260	-	2,260	-	-	-
BBVA Colombia (e)	COP	8.400	2018	-	2,900	-	3,368	-	3,368	-	-	-
				1,037,275	2,900	106,073	3,397,297	-	3,374,185	-	23,112	-
Other obligations (k)												
IBM Perú SAC	USD	2.170	2019	335	-	-	89	107	71	71	18	36
Hewlett Packard S.A.	USD	2.930	2021	12,084	-	-	21,124	17,052	8,959	8,094	12,165	8,958
IBM Perú SAC	USD	8.340	2018	451	-	-	68	-	68	-	-	-
				12,870	-	-	21,281	17,159	9,098	8,165	12,183	8,994
Total				1,065,145	2,900	163,892	3,437,683	27,301	3,398,612	14,088	39,071	13,213

Notes to the interim consolidated financial statements (continued)

(b) In January 2018, Eckerd Perú S.A. received a loan of US\$1,000,000,000 equivalent to S/3,245,000,000 as of March 31, 2018 granted by Citibank N.A. and J.P. Morgan Chase Bank N.A. with a one-year maturity and interest at the Libor rate plus a margin. This loan is presented net of its structuring cost. This loan was partially used for the Quicorp Group acquisition (see Note 2) and the difference, mainly to the restructuring of various debts contracted by related companies.

(c) Scotiabank Perú
Química Suiza S.A.
It corresponds to two loans amounting to S/25,000,000 with maturity April and May 2018. The annual accrued interest rate is 2.70 y 2.35 percent. There are no specific guarantees.

(d) BBVA Continental
Química Suiza S.A.
It corresponds to four loans amounting to S/5,000,000, S/10,000,000, S/10,000,000 and S/10,000,000 and with maturities between April and July 2018. The annual accrued interest rates between 2.79 percent and 3.15 percent. There are no specific guarantees

Cifarma S.A.
It corresponds to three loans amounting to S/1,473,000, S/1,300,000 and S/500,000 with maturities between April and May 2018. The annual accrued interest rates are 3.05 percent and 3.15 percent, respectively.

(e) BBVA Colombia
Quideca S.A.
As of March 31, 2018, the company had financial obligations with BBVA for an amount of US\$2,900,000 under an annual fixed effective interest rate of 8.40 percent that may be postponed every 165 days, supported by promissory notes and guarantees granted to the bank..

(f) Banco de Crédito del Perú
Química Suiza S.A.
It corresponds to five loans amounting to S/42,000,000 with maturities from April to July 2018. The annual accrued interest rates are 2.65 percent and 3.14 percent. There are no specific guarantees.

Cifarma S.A.
It corresponds to one loan amounting to S/800,000 with maturity in May 2018. The annual accrued interest rate is 3.55 percent.

(g) Banco Pichincha
Vanttive Cía Ltda.
It corresponds to two loans amounting to US\$3,875,000 within a term of 180 days. The annual accrued interest rate 7.00 percent annual.

Quifatex S.A.
It corresponds to five loans amounting to US\$5,900,000 with maturities between April and August 2018 and the accrued interest rate is 7.00 percent annual.

Notes to the interim consolidated financial statements (continued)

- (h) Banco Internacional
Quifatex S.A.
It corresponds to two loans amounting to US\$2,000,000 and US\$1,700,000 with maturities in May and September 2018. The accrued interest rate is 6.50 percent annual.
- (i) Citibank de Ecuador
Quifatex S.A.
It corresponds to two loans amounting to US\$3,000,000 with maturity in January 2018. The accrued interest rate is 6.914 percent annual.
- (j) Banco Guayaquil
Quifatex S.A.
It corresponds to two loans amounting to US\$7,000,000 maturing in June and December 2018. It accrues interest at an annual rate 6.86 percent.
- (k) Corresponds to the debt acquired with IBM del Perú S.A.C. and Hewlett Packard S.A., for the purchase and leasing of computer equipment. These contracts do not have specific guarantees
- (l) During the three-month-periods ended March 31, 2018 and 2017, loans and borrowings accrued interest which is recorded in the "Finance costs" caption of the consolidated income statements, see Note 16. Also, as of March 31, 2018 and December 31, 2017, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (m) Some of the interest-bearing loans and borrowings include standard clauses requiring the InRetail Pharma Group to meet financial ratios, use of funds criteria and other administrative matters. In Management's opinion, as of March 31, 2018 and December 31, 2017, standard clauses do not limit the normal operation of the InRetail Pharma Group and have been fulfilled.

- (n) Financial obligations are payable as follows:

	2018	2017
	S/ (000)	S/ (000)
2018	194,578	14,089
2019	3,226,112	9,564
2020	13,485	3,089
2021 onwards	3,508	559
Total	3,437,683	27,301

Notes to the interim consolidated financial statements (continued)

13. Income tax

- (a) The amounts presented in the statement of financial position as of March 31, 2018 and December 31, 2017, as well as the consolidated income statements for the three-month periods ended March 31, 2018 and 2017 are shown below:

Statements of financial position	As of March 31, 2018		As of December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
InRetail Pharma S.A. (antes Eckerd Perú) and Subsidiaries	11,419	-	12,861	-
Química Suiza S.A.	-	34,162	-	-
Cifarma S.A.	-	40	-	-
Vanttive S.A.C.	336	-	-	-
Superfarma Mayoristas S.A.C.	365	-	-	-
Quifatex S.A.	2,561	-	-	-
Vanttive Cía Ltda.	26	-	-	-
Quimiza Ltda.	301	-	-	-
Quideca S.A.	1,046	-	-	-
Mifarma S.A.C.	10,914	-	-	-
Albis S.A.	30,690	-	-	-
Boticas Torres de Limatambo S.A.C.	2,155	-	-	-
Drogueria La Victoria S.A.C.	190	-	-	-
Jorsa de la Selva S.A.	2,419	-	-	-
Consolidation adjustment	-	33,539	-	-
Total	62,422	67,741	12,861	-

Statements of comprehensive income	Income tax for the three-month periods ended	
	March 31, 2018 and 2017	
	2018	2017
	S/(000)	S/(000)
Current	(15,975)	(13,003)
Deferred	(702)	716
Income tax expense	(16,677)	(12,287)

- (b) As of March 31, 2018 the advanced payments for income tax, amounts to approximately S/104,335,000. Also, as of December 31, 2017, the income tax credit amounts to approximately S/4,290,000.

Notes to the interim consolidated financial statements (continued)

14. Equity

- (a) Capital stock –
As of March 31, 2018 and 2017, the capital stock of the Company is represented by 13,783,428 common shares, with a nominal value of S/1.00 each, which are entirely authorized and paid.
- (b) Capital Premium –
Correspond to cash contributions for a total amount of approximately S/4,182,000. In accordance with the agreements of the General Shareholders Meetings of July 2008, an amount of S/791,000 was recorded as capital stock and the difference of approximately S/3,391,000 was recorded as a capital premium, which is presented in the caption "Capital premium" in the consolidated statement of financial position.
- (c) Legal reserve –
As of March 31, 2018 and 2017, this caption includes the legal reserve established by the Company and its Subsidiaries. As provided in the General Corporations Law, it is required that a minimum of 10 percent of distributable income for each year is transferred to a legal reserve until such reserve equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, in both cases it must be replenished. The legal reserve is appropriated when the General Shareholders' Meeting approves it.
- In Management's opinion, during 2018 the General Shareholders Meeting will approve the transfer to legal reserve of approximately S/308,000, in order to meet the equivalent to 20 percent of the capital stock and reach the legal limit.
- (d) Dividends declared and paid –
The General Shareholders Meeting held on March 31, 2017 agreed to distribute dividends with charge to retained earnings for a total amount of approximately S/35,000,000, which were paid in full in the first quarter 2017.

15. Tax Situation

- (a) The Company and its Subsidiaries domiciled in Peru, Ecuador, Bolivia y Colombia, are subject to the tax regime of each country and calculate the income tax based on their individual financial statements. As of March 31, 2018 and December 31, 2017, the income tax rate was:

Country	%
Perú	29.5
Ecuador	22
Bolivia	25
Colombia	33

Notes to the interim consolidated financial statements (continued)

Entities and individuals not domiciled in Peru must pay an additional tax over dividends received. In this regard, attention to Legislative Decree N° 1261, published on December 10, 2016 and effective from January 1, 2017, the additional tax on dividend income generated is as follows:

- 4.1 percent for the profits generated until December 31, 2014
- 6.8 percent for the profits generated in the years 2015 and 2016.
- 5.0 percent for the profits generated since January 1, 2017.

- (b) Law No. 29663, later amended by law 29757, established Peruvian source income as that obtained by the indirect sales of shares representing the capital stock of companies domiciled in the country.

To this end, an indirect transference is configured when the following two assumptions occur together:

- (i) In first place, 10 percent or more of shares of the non domiciliated company must be sold in a period of twelve months.
 - (ii) In second place, the market value of the Peruvian company's shares must represent 50 percent or more of the market value of the non domiciliated company, in a period of twelve months.
- (d) For purposes of determining the Income Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. Based on the analysis of the operations of the InRetail Pharma Group, Management and its legal advisors consider that as consequence of the application of the regulation in force, there will not be any significant contingencies for the InRetail Pharma Group as of March 31, 2018 and December 31, 2017.
- (e) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail PharmaS.A.. incorporated in Peru:

	Income Tax	Value added tax
InRetail Pharma S.A. (former Eckerd Perú S.A.)	From 2014 to 2017	From 2013 to 2017
Eckerd Amazonía S.A.C.	From 2014 to 2017	From 2013 to 2017
Boticas del Oriente S.A.C.	From 2014 to 2017	From 2013 to 2017
Química Suiza Comercial S.A.	From 2014 to 2017	From 2013 to 2018
Quicorp S.A.	From 2013 to 2017	From 2013 to 2017
Superfarma Mayoristas S.A.	From 2016 to 2017	From 2016 to 2017
Vanttive S.A.C.	From 2013 to 2017	From 2013 to 2017
Cifarma S.A	From 2013 to 2017	From 2013 to 2017
Vanttive Cía Ltda.	From 2015 to 2017	From 2015 to 2017
Química Suiza S.A.	From 2016 to 2017	From 2013 to 2017
Quifatex	From 2015 to 2017	From 2015 to 2017
Quideca S.A.	From 2012 to 2017	From 2016 to 2017
Quimiza Ltda.	From 2013 to 2017	From 2013 to 2017
Droguería La Victoria S.A.C.	From 2013 to 2017	From 2013 to 2017
Jorsa de la Selva S.A.	From 2013 to 2017	From 2013 to 2017
Mifarma S.A.C.	From 2014 to 2017	From 2013 to 2017
Albis S.A.	From 2013 to 2017	From 2013 to 2017
Boticas Torres de Limatambo S.A.C	From 2013 to 2017	From 2013 to 2017

Notes to the interim consolidated financial statements (continued)

Due to possible interpretations that the tax authority may give to legislation, it is not possible to determine, to date, whether the reviews will result in liabilities for the InRetail Pharma Group. Therefore, any major tax or surcharge that may result from eventual revisions by the tax authority would be charged to the consolidated statements of comprehensive income of the period in which such tax or surcharge is determined.

In opinion of Management of the InRetail Pharma Group as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the consolidated financial statements as of March 31, 2018 and December 31, 2017.

- (f) As of March 31, 2018 and 2017, estimated losses from previous periods for Subsidiaries for tax purposes are the following:

	2018	2017
	S/ (000)	S/ (000)
Albis S.A.	104,259	-
Jorsa de la Selva S.A.	8,325	-
Total	112,584	-

According to what the Income Tax Act and its amendments establish, entities domiciled in Peru have the faculty to choose one of the following methods to draw their tax losses:

- (i) The tax loss can be offset with future profits until its final extinction by applying said loss to up to 50 percent of the taxable income; or
- (ii) The tax loss can be used for four years after it has been generated.

Albis S.A. have chosen method (i) and Jorsa de la Selva the method (ii).

Notes to the interim consolidated financial statements (continued)

16. Operating expenses

(a) The table below presents the components of this caption for the three-month periods ended March 31, 2018 and 2017:

	2018	2017
	S/(000)	S/(000)
Cost of sales	974,955	449,396
Selling expenses	289,299	154,939
Administrative expenses	65,491	15,672
Total	1,329,745	620,007

The table below presents the components of operating expenses included in cost of sales, sales and administrative expenses captions.

	2018			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods, Note 7 (a)	378,527	-	-	378,527
Subsidiary acquisition	724,128	-	-	724,128
Purchase of goods	835,075	-	-	835,075
Final balance of goods, Note 7 (a)	(962,249)	-	-	(962,249)
Final balance of raw materials, Note 7 (a)	(7,692)	-	-	(7,692)
Final balance of suppliers, Note 7 (a)	(1,260)	-	-	(1,260)
Final balance of finished goods, Note 7 (a)	(95)	-	-	(95)
Impairment of inventories Note 7 (c)	6,627	-	-	6,627
Cost of services	1,894	-	-	1,894
Personnel expenses	-	138,660	28,772	167,432
Depreciation, Note 9 (d)	-	14,010	2,362	16,372
Impairment of assets	-	(195)	(27)	(222)
Amortization, Note 10 (d)	-	1,755	658	2,413
Key money amortization	-	1,122	-	1,122
Services provided by third parties (b)	-	57,048	27,721	84,769
Advertising	-	7,308	39	7,347
Packing and packaging	-	3,259	40	3,299
Rental of premises	-	55,510	1,059	56,569
Taxes	-	1,603	2,094	3,697
Provision for doubtful trade receivables, Note 6(e)	-	2,012	57	2,069
Recoveries, Note 6 (e)	-	(1,402)	(41)	(1,443)
Insurance	-	1,867	189	2,056
Other charges (c)	-	6,742	2,568	9,310
Total	974,955	289,299	65,491	1,329,745

Notes to the interim consolidated financial statements (continued)

	2017			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods	472,299	-	-	472,299
Purchase of goods	380,146	-	-	380,146
Final balance of goods	(406,893)	-	-	(406,893)
Impairment of inventories, Note 7 (c)	3,844	-	-	3,844
Personnel expenses	-	73,245	9,933	83,178
Depreciation, Note 9 (d)	-	8,581	1,259	9,840
Amortization, Note 10 (d)	-	847	142	989
Key money amortization	-	115	-	115
Services provided by third parties (b)	-	29,436	3,113	32,549
Advertising	-	5,920	-	5,920
Packing and packaging	-	2,056	30	2,086
Rental of premises	-	31,593	308	31,901
Taxes	-	335	402	737
Provision for doubtful trade receivables, Note 6(e)	-	1	-	1
Insurance	-	613	56	669
Other charges (c)	-	2,197	429	2,626
Total	449,396	154,939	15,672	620,007

(b) Corresponds mainly to expenses of electricity, water, telephone, premises maintenance services and transport services.

(c) Mainly include general expenses in stores.

17. Finance costs

(a) The table below presents the components of finance costs:

	2018	2017
	S/(000)	S/(000)
Interest on loans, borrowings and bonds payable	27,309	447
Other financial costs	1,457	43
Total	28,766	490

(b) As of March 31, 2018, there are interests payable for these obligations for approximately S/1,577,000, which are recorded in the "Other payables" caption of the consolidated statements of financial position.

Notes to the interim consolidated financial statements (continued)

18. Transactions with related parties

(a) The following table provides the total amount of transactions that have been entered into with related parties for the three-month periods ended as of March 31, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Income		
Sales	3,165	-
Rendering of services	-	17
Interest income	9,944	-
Other	85	818
Total	13,194	835
Expenses		
Renting of premises and land	3,324	2,461
Reimbursement of expenses	810	1,719
Commissions	3,466	-
Interest	186	-
Others	1,855	537
Total	9,641	4,717

(b) As a result of the transactions with related companies, the InRetail Pharma Group recorded the following balances as of March 31, 2018 and December 31, 2017:

	As of March 31, 2018 S/(000)	As of December 31, 2017 S/(000)
Receivables		
Supermercados Peruanos S.A. (e)	7,412	-
Homecenters Peruanos S.A. (e)	133	-
InRetail Consumer (d)	1,048,069	538
Financiera Oh! S.A.	91	76
Banco Internacional del Perú S.A.A.-Interbank	26	-
Others	41	15
Total	1,055,772	629
	As of March 31, 2018 S/(000)	As of December 31, 2017 S/(000)
Payables		
Homecenters Peruanos S.A.	5	-
Banco Internacional del Perú S.A.A. – Interbank:		
Credit lines and others	17	-
Supermercados Peruanos S.A.	1,200	455
Others	2,442	144
	3,664	599
Remunerations payable to key management	-	-
Total	3,664	599

The policy of the InRetail Pharma Group is to make transactions with related companies at terms equivalent to those that prevail in arm's length transactions.

Notes to the interim consolidated financial statements (continued)

- (c) Outstanding balances at the period-end are unsecured and interest free, except for the financial obligations explained in this one. There have been no guarantees provided or received for any related party receivables or payables. As of March 31, 2018 and December 31, 2017, the InRetail Pharma Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.
- (d) In January 2018, the Company granted a loan to Patrimonio en Fideicomiso D.S. 093-EF-2012 InRetail Consumer of US\$322,000,000 equivalent to S/1,038,128,000 as of March 31, 2018 (equivalent S/1,039,738,000 at transaction date) that accrues an annual interest of 5.50 percent and due in January 2019.

Additionally, as of March 31, 2018, it includes accumulated interests of US\$3,083,000 equivalent to S/9,941,000.

- (e) Corresponds to the balances pending for the sale of goods of Química Suiza S.A. as of March 31, 2018.
- (f) Banco Internacional del Perú – Interbank signed leasing contracts with InRetail Pharma S.A. which to date have outstanding balances of approximately S/8,844,000. These leasing contracts accrue annual interest rates of 7.85 percent, with maturity in 2019. These transactions are included in “Interest-bearing loans and borrowings”. During the three-month periods ended March 31, 2018 and 2017, leasing contracts generated interests which are recorded in the “Financial costs” caption of the consolidated income statements.
- (g) The compensation of key management personnel of the InRetail Pharma Group for the three-month periods ended March 31, 2018 and 2017, is detailed below:

	2018	2017
	S/(000)	S/(000)
Short term employee benefits	10,454	2,255
Insurance and medical benefits	15	-
Employment benefits for contract termination	301	-
Total	10,770	2,255

Notes to the interim consolidated financial statements (continued)

- (h) As of March 31, 2018 and December 31, 2017, the InRetail Pharma Group maintains the following balances in the cash and cash equivalent captions:

	2018 S/(000)	2017 S/(000)
Banco Internacional del Peru – Interbank S.A.A.	196,754	15,254
Inteligo Bank Ltd.	49,907	-

19. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the three-month periods attributable to ordinary equity holders of InRetail Pharma S.A. by the weighted average number of ordinary shares outstanding during the same period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The following reflects basic and diluted earnings per share computations:

	<u>Ordinary shares</u>		
	<u>Outstanding shares</u>	<u>Effective days until period-end</u>	<u>Weighted average of shares</u>
Number as of January 1, 2017	13,783,428		13,783,428
Number as of March 31, 2017	13,783,428		13,783,428
Number as of January 1, 2018	13,783,428		13,783,428
Number as of March 31, 2018	13,783,428		13,783,428
	<u>For the three-month-periods ended March 31, 2018</u>		
	<u>Net income (numerator)</u> S/	<u>Shares (denominator)</u>	<u>Earnings per share</u> S/
Basic and diluted earnings per share	16,932,000	13,783,428	1.23
	<u>For the three-month-periods ended March 31, 2017</u>		
	<u>Net income (numerator)</u> S/	<u>Shares (denominator)</u>	<u>Earnings per share</u> S/
Basic and diluted earnings per share	27,976,000	13,783,428	2.03

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Notes to the interim consolidated financial statements (continued)

20. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of March 31, 2018 and December 31, 2017, the InRetail Pharma Group have signed renting contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents base on sales, whichever is highest.

Otherwise, the total rental commitments assumed, calculated on the basis of the leasing fixed amounts, will be paid as follows:

	2018	2017
Up to 1 year	230,215	132,513
Between 1 and 3 years	575,057	426,549
More than 3 years	240,249	148,178
Total	1,045,521	707,240

- (b) As of March 31, 2018 the Company agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/15,240,000 and US\$1,839,000 (S/5,895,000 and US\$1,739,000 as of December 31, 2017), respectively, to comply with the payment of goods purchased to foreign suppliers.

Contingencies –

- (a) Eckerd Amazonía S.A.C. is in the process of claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and September 2005. In opinion of Management and its legal advisors these contingencies are stated as possible and significant liabilities will not arise as result of this contingency as of March 31, 2018 and December 31, 2017.
- (b) InRetail Pharma S.A. maintains certain labor claims for approximately S/2,322,000, mainly related to compensation for arbitrary dismissal, non-payment of social benefits, and reinstatements in the work place, among others. In Management's opinion and its legal advisors, these must be resolved favorably for InRetail Pharma S.A.; consequently, it is not necessary to record additional liabilities for these items.
- (c) Mifarma S.A. (formerly Farmacias Peruanas S.A.)
- The Peruvian tax Administration (SUNAT) has some objections related to the tax base for income tax and value added tax for the year 2001 in the amount of S/7,111,000. Mifarma S.A. (formerly Farmacias Peruanas S.A.) has filed a judicial claim before the Tax Court to annul the objection.

In Management's opinion and its legal advisors, such provision is sufficient to cover the observations and it has the necessary arguments to refute the observations in order for the proceedings to be resolved in favor of the Company.

- In 2006, Peruvian Tax Authority made an assessment related to the income tax base for year 2003 for S/1,827,000. In relation to this amount, the Company filed a claim for S/1,296,000; concerning the remaining taxable base of S/531,000, part of it was accepted, which represented the payment of principal, fine and interest for S/129,000.

Notes to the interim consolidated financial statements (continued)

In Management's opinion and its legal advisors, considers such provision is sufficient to cover the observations and it has the necessary arguments to refute the observations in order for the proceedings to be resolved in favor of the Company.

- In 2011, the Peruvian Tax Authority made some objections related to the base of the income tax for the year 2009 in the amount S/4,184,000, which results in the reversal of the tax loss that the Company had determined for the year. On January 3, 2012, amounts of the assessment were notified, resulting in a reduction of the income tax credit from S/1,853,000 to S/1,252,000.

Likewise, a fine of S/627,000 and interest of S/59,000 were determined for the fact of filing information that causes an omitted tax and/or an unduly increased loss.

The Company accepted some of these objections and on January 31, 2012, filed a partial claim of these objections claiming an amount of S/2,004,000, as well as the fine of S/301,000 plus respective default interest.

On May 18, 2012, The Peruvian tax Authority declared that the partial claim filed by the Company was groundless. On June 8, 2012, the Company filed an appeal on these facts.

21. Business segments

For management purposes, the InRetail Pharma Group is organized into business units based on their products and services and has two reportable segments as follows:

- The pharmacies segment is a nationwide supplier of drugs, medicines and cosmetic related products through the chain of pharmacies named "Inkafarma" and "Mifarma".
- Manufacturing, Distribution and Marketing segment operates nationally and internationally.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

As of March 31, 2018 and December 31, 2017 and for the three-month periods ended March 31, 2018 and 2017, InRetail Pharma S.A.. is organized into two main business lines, see Note 2. Transactions between the business segments are carried out under normal commercial terms and conditions. The following table presents the financial information of InRetail Pharma S.A. (formerly Eckerd Perú S.A.) and Subsidiaries by business segments for the three-month periods ended March 31, 2018 and 2017

	Pharmacies S/(000)	Manufacturing, Distribution and Marketing S/(000)	Total segments S/(000)	Holding accounts, consolidation adjustments and intercompany eliminations S/(000)	Consolidated S/(000)
For the three-month periods ended March 31, 2018					
Revenue					
External income	1,019,383	359,931	1,379,314	-	1,379,314
Inter-segment	-	94,723	94,723	(94,723)	-
Total revenue	1,019,383	454,654	1,474,037	(94,723)	1,379,314
Cost of sales	(607,282)	(367,673)	(974,955)	-	(974,955)
Inter-segment	(90,056)	-	(90,056)	90,056	-
Gross profit	322,045	86,981	409,026	(4,667)	404,359
Selling expenses	(239,589)	(53,124)	(292,713)	3,414	(289,299)
Administrative expenses	(22,739)	(24,969)	(47,708)	(17,783)	(65,491)
Other operating income (expenses)	2,512	6,359	8,871	(273)	8,598
Operating profit	62,229	15,247	77,476	(19,309)	58,167
Net, exchange difference	(10,229)	155	(10,074)	(1,749)	(11,823)
Finance income	11,951	1,994	13,945	559	14,504
Finance costs	(25,890)	(4,993)	(30,883)	2,117	(28,766)
Profit before income tax	38,061	12,403	50,464	(18,382)	32,082
Income tax expense	(12,403)	(4,274)	(16,677)	-	(16,677)
Profit for the year	25,658	8,129	33,787	(18,382)	15,405
Attributable to:					
Owners of the parent	25,658	8,129	33,787	(16,855)	16,932
Non-controlling interests	-	-	-	(1,527)	(1,527)
Profit for the year	25,658	8,129	33,787	(18,382)	15,405

Notes to the interim consolidated financial statements (continued)

	Pharmacies	Manufacturing, Distribution and Marketing S/(000)	Total segments S/(000)	Holding accounts, consolidation adjustments and intercompany eliminations S/(000)	Consolidated S/(000)
For the three-month periods ended March 31, 2017					
Revenue					
External income	662,072	-	662,072	-	662,072
Inter-segment	-	-	-	-	-
Total revenue	662,072	-	662,072	-	662,072
Cost of sales	(449,396)	-	(449,396)	-	(449,396)
Inter-segment	-	-	-	-	-
Gross profit	212,676	-	212,676	-	212,676
Selling expenses	(154,939)	-	(154,939)	-	(154,939)
Administrative expenses	(15,672)	-	(15,672)	-	(15,672)
Other operating income (expenses)	(1,239)	-	(1,239)	-	(1,239)
Operating profit	40,826	-	40,826	-	40,826
Net, exchange difference	(772)	-	(772)	-	(772)
Finance income	699	-	699	-	699
Finance costs	(490)	-	(490)	-	(490)
Profit before income tax	40,263	-	40,263	-	40,263
Income tax expense	(12,287)	-	(12,287)	-	(12,287)
Profit for the year	27,976	-	27,976	-	27,976
Attributable to:					
Owners of the parent	27,976	-	27,976	-	27,976
Non-controlling interests	-	-	-	-	-
Profit for the year	27,976	-	27,976	-	27,976

Income and expenses of IR Pharma S.A. are not allocated to individual segments as the underlying instruments are managed on an InRetail Pharma Group basis and are reflected in the adjustments and eliminations column. Additionally, inter-segment revenues are eliminated upon combination and reflected also in the "Adjustments and eliminations" column.

Geographic information-

As of March 31, 2018 and December 31, 2017, the operations of all the Company's subsidiaries are mainly carried out in Peru; with income and assets from abroad not being significant at those dates

22. Fair value

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

When a financial instrument is traded in an active and liquid market, its quoted market price in an actual transaction provides the best evidence of its fair value. When a quoted market price is not available, or may not be indicative of the fair value of the financial instrument, other estimation techniques may be used to determine such fair value, including the current market value of another financial instrument that is substantially similar, discounted cash flow analysis or other techniques applicable, all of which are significantly affected by the assumptions used. Although Management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable of settlement value.

The following methods and assumptions were used to estimate the fair values:

- (a) Financial instruments whose fair value is similar to book value –
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments. Also, the derivative instrument by the InRetail Pharma Group is recorded at fair value.
- (b) Fixed-rate financial instruments –
The fair value of financial assets and liabilities at fixed interest rates and amortized cost is determined by comparing market interest rates at their initial recognition to current market rates related to similar financial instrument. The estimated fair value of interest-bearing deposits is determined through discounted cash flows by using market interest rates in the prevailing currency with similar maturities and credit risks.
- (c) Available-for-sale investment –
Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using a discounted cash flow technique.

Fair value hierarchy

The InRetail Pharma Group uses the following hierarchy for determining and disclosing the fair value of its financial instrument recorded in the statement of financial position:

Notes to the interim consolidated financial statements (continued)

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The InRetail Pharma Group does not maintain any financial instrument with fair value determination under level 3 and there were no transfers between levels during the nine-month periods ended March 31, 2018 and 2017. The InRetail Pharma Group maintains the following financial instruments at fair value:

- Available-for-sale investments which fair value was determined under level 1 hierarchy.
- Derivative instrument which fair value was determined under level 2 hierarchy.

23. Transactions in foreign currency

The financial statements have been stated in Soles using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of March 31, 2018 the weighted average exchange rates in the market for transactions in US Dollars were S/3.224 per US\$1.00 bid and S/3.229 per US\$ 1.00 ask (S/3.238 and S/3.245 per US\$1.00 for bid and ask as of December 31, 2017).

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by authorized entities of the country in which Company and its subsidiaries operate. As of March 31, 2018, the weighted average exchange rate at the market for transactions of the different currency in relation to the Sol are as following:

Exchange rate per soles	2018	2017
U. S. Dollars (US\$)	0.309	0.308
Peso Boliviano (\$b)	2.155	2.145
Colombian pesos (\$)	861.093	919.659

As of March 31, 2018 and December 31, 2017, The InRetail Pharma Group held the following foreign currency assets and liabilities:

	As of March 31, 2018		As of December 31, 2017	
	US\$(000)	\$b (000)	\$(000)	US\$(000)
Assets				
Cash and short-term deposits	114,873	5,833	1,645,213	580
Available-for-sale investment	-	-	-	14,453
Trade receivables, net	68,187	37,044	7,753,159	-
Other accounts receivables, net	16,097	20,211	90,389	2,815
Accounts receivable from related parties	328,634	-	-	-
Total assets	527,791	63,088	9,488,761	17,848
Liabilities				
Trade payables	(63,648)	(48,666)	(5,708,330)	(2,220)
Other payables	(24,370)	(14,604)	(2,776,623)	(2,473)
Accounts payable to related parties	(1,479)	-	-	-
Interest - bearing loans and borrowings	(1,030,014)	-	(2,900,000)	(5,504)
Total Liabilities	(1,119,511)	(63,270)	(11,384,953)	(10,197)
Call Spread	-	-	-	-
Net (liability) assets position	(591,720)	(182)	(1,896,192)	7,651

Notes to the interim consolidated financial statements (continued)

As of March 31, 2018 and December 31, 2017 the InRetail Pharma Group has decided to assume its exchange rate risk.

As of March 31, 2018, the weighted average exchange rates in the market for transactions in US Dollars were S/3.224 per US\$ 1.00 bid and S/ 3.229 per US\$ 1.00 ask (S/3.238 and S/3.245 per US\$1.00 for bid and ask as of December 31, 2017).

24. Subsequent events

a) Fusion of companies

At the General Shareholders' Meeting held on April 23, 2018, the merger of the Companies InRetail Pharma S.A. and IR Pharma S.A.C. was approved, with the latter being absorbed. As a result of the merger agreement, the Company increased its equity by approximately S/481,500,000.

b) Issuance of debt instruments

On April 25, 2018, the Company, issued debt instruments ("Notes") denominated in US dollars through a private offer to institutional investors under Rule 144 A and Regulation S, for US\$400,000,000, equivalent to S/1,291,600,000 that accrues an interest of 5.375 percent per annum, with a maturity of 5 years and with semiannual payments of interest and the principal in a single installment upon maturity of the securities. The Settlement Date is May 2, 2018.

Additionally, on April 24, 2018, the Company issued debt instruments ("Notes") denominated in Soles for S/385,800,000 that bear an annual interest rate of 6.4375 percent, maturing in 7 years and with semiannual interest payments and the principal in a single installment upon maturity of the securities.

Both issues are guaranteed with the shares of the Subsidiaries. The Settlement Date is May 2, 2018.

c) Derivative financial instruments for hedging

On April 2018, InRetail Pharma S.A., decided to carry out hedging operations through a Foreign Currency Call Spread for the financial obligations it holds for the "Unsecured Senior Notes", in the amount of US\$400,000,000, which for purposes of IFRS 9 were qualified as effective hedging instruments.

This instrument covers 100 percent of the exposure in foreign currency of the principal of the issue and protects exchange rate variations between S/3.26 and S/3.75 per US\$1.00. The premium price was financed in installments equal to that of the issue.

25. Additional explanation for English translation

The accompanying consolidated financial statements are presented on the basis of the IFRS. Certain accounting practices applied by the InRetail Pharma Group may differ in certain respects from accounting principles generally accepted in other countries. In the event of any discrepancy, the Spanish-language version prevails.

Notes to the interim consolidated financial statements (continued)

8. Derivative financial instruments

As of March 31, 2018 and December 31, 2017, this item comprises of three “Principal Call Spread” contracts designated to hedge cash flows from exchange rate variations and recorded at their fair value. The detail of the operations is as follows:

The financial instruments cover 43 and 57 percent, of the exposure to foreign currency risk arising from the international bond issues in July and October 2014, see note 13 (b) and (c). The Call Spreads cover variations in the exchange rate from S/3.220, S/3.379 and S/3.225, to S/3.75 per US\$1.00 and the price of the premiums was funded in installments, generating a liability. See Note 13.