

InRetail Pharma S.A. and Subsidiaries

Interim consolidated financial statements as of March 31, 2020, (non-audited) and December 31, 2019 (audited) and for the three-month period ended March 31, 2020 and 2019

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Interim consolidated statements of financial position

As of March 31, 2020 (unaudited) and December 31, 2019 (audited)

	Note	2020	2019		Note	2020	2019
		S/(000)	S/(000)			S/(000)	S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	599,146	589,253	Trade payables	11	1,546,391	1,531,833
Investments at fair value through equity	7	40,828	-	Other payables		259,075	241,430
Trade receivables, net	5	490,140	488,875	Accounts payable to related parties	19(b)	3,821	3,975
Other receivables, net		61,796	37,525	Interest-bearing loans and borrowings	13	256,806	140,840
Accounts receivables from related parties	19(b)	8,567	8,977	Lease liability	12(c)	212,828	218,620
Inventories, net	6	1,111,535	1,019,273	Current income tax	14(b)	19,633	21,907
Taxes recoverable		55,159	51,205	Total current liabilities		2,298,554	2,158,605
Prepayments		7,596	5,676				
Total current assets		2,374,767	2,200,784	Non-current liabilities			
				Other payables		1,680	1,424
Non-current assets				Interest-bearing loans and borrowings	13	1,997,293	1,962,073
Other receivables, net		26,012	24,745	Lease liability	12(c)	438,183	452,569
Investments at fair value through equity	7	-	45,435	Reserves for employee retirement pension funds		21,006	19,865
Derivative financial instrument	8	88,499	63,508	Deferred income tax liabilities, net	14(a)	232,745	240,762
Property, furniture and equipment, net	9	560,587	560,693	Total non-current liabilities		2,690,907	2,676,693
Right-of-use assets, net	12(b)	644,502	685,120	Total liabilities		4,989,461	4,835,298
Intangible assets, net	10	1,966,831	1,978,012				
Deferred income tax assets, net	14(a)	62,209	46,293	Equity			
Other assets		7,210	7,208	Capital stock	15(a)	15,840	15,840
Total non-current assets		3,355,850	3,411,014	Capital premium	15(b)	482,835	482,835
Total assets		5,730,617	5,611,798	Other reserves		2,449	2,449
				Unrealized results from derivative financial instruments		(18,908)	(3,373)
				Unrealized results from valuation of investment at fair value		5,444	8,692
				Unrealized results from actuarial reserve for retirement		477	477
				Unrealized results from foreign currency translation		556	(239)
				Retained earnings		252,463	269,819
				Total equity		741,156	776,500
				Total liabilities and equity		5,730,617	5,611,798

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated Income statements

For the three-month period ended March 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Net sales of goods		1,631,994	1,654,638
Rental income		21,702	12,259
Rendering of services		51,388	37,626
Revenue		1,705,084	1,704,523
Cost of sales	17	(1,175,189)	(1,186,748)
Gross profit		529,895	517,775
Selling expenses	17	(324,140)	(318,534)
Administrative expenses	17	(57,746)	(66,389)
Other operating income, net		2,556	184
Operating profit		150,565	133,036
Financial income		3,677	3,172
Financial expenses	18	(47,615)	(49,268)
Exchange difference, net		(16,083)	8,130
Profit before income tax		90,544	95,070
Income tax expense	14(a)	(28,887)	(25,950)
Net profit		61,657	69,120
Earnings per share:			
Basic and diluted profit for the period	20	3.893	4.364

All items above are related to continuing operations.

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated statements of comprehensive income
For the three-month period ended March 31, 2020 and 2019

	2020 S/(000)	2019 S/(000)
Profit for the period	61,657	69,120
Other comprehensive income		
Unrealized (loss) gain on investments at fair value through equity	(4,607)	8,846
Income tax effect	1,359	(2,610)
Total other comprehensive income from investments at fair value through equity	(3,248)	6,236
Unrealized (loss) gain from derivative financial instrument	(22,036)	18,467
Income tax effect	6,501	(5,447)
Total comprehensive income from derivative financial instruments	(15,535)	13,020
Unrealized gain (loss) from foreign currency translation	795	(24)
Total comprehensive income from foreign currency translation	795	(24)
Other comprehensive income for the period, net of income tax effects	(17,988)	19,232
Total comprehensive income for the period	43,669	88,352

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated statements of change in equity

For the three-month period ended March 31, 2020 and 2019

	Capital stock	Capital premium	Other reserves	Unrealized results from derivative financial instrument	Unrealized results from investment at fair value through equity	Unrealized results from actuarial reserve for retirement	Unrealized results from foreign currency translation	Retained earnings	Total equity
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balance as of January 1, 2019	15,840	482,835	2,449	(12,356)	2,237	-	6	108,055	599,066
First adoption IFRS 16 effect	-	-	-	-	-	-	-	5,429	5,429
Balance as of January 1, 2019 after IFRS 16	15,840	482,835	2,449	(12,356)	2,237	-	6	113,484	604,495
Profit for the period	-	-	-	-	-	-	-	69,120	69,120
Other comprehensive income	-	-	-	13,020	6,236	-	(24)	-	19,232
Total comprehensive income	-	-	-	13,020	6,236	-	(24)	69,120	88,352
Other	-	-	-	-	-	-	-	-	-
Balance as of March 31, 2019	15,840	482,835	2,449	664	8,473	-	(18)	182,604	692,847
Balance as of January 1, 2020	15,840	482,835	2,449	(3,373)	8,692	477	(239)	269,819	776,500
Profit for the period	-	-	-	-	-	-	-	61,657	61,657
Other comprehensive income	-	-	-	(15,535)	(3,248)	-	795	-	(17,988)
Total comprehensive income	-	-	-	(15,535)	(3,248)	-	795	61,657	43,669
Dividends	-	-	-	-	-	-	-	(79,013)	(79,013)
Balance as of March 31, 2020	15,840	482,835	2,449	(18,908)	5,444	477	556	252,463	741,156

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated statements of cash flows

For the three-month period ended March 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Operating activities			
Revenue		1,703,404	1,690,542
Payment of goods and services to suppliers		(1,379,812)	(1,368,773)
Payment of salaries and social benefits to employees		(190,435)	(190,521)
Taxes paid		(54,520)	(30,843)
Recovery of taxes		3,593	-
Other payments, net		(3,255)	(15,799)
Net cash flows from operating activities		78,975	84,606
Investing activities			
Rescue of investments at fair value through profit or loss		-	1,000
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts		(13,590)	(3,587)
Payment of key money		(290)	-
Purchase and development of intangible assets		(2,791)	(1,101)
Other collections related to investing activities		-	2,029
Net cash flows used in investing activities		(16,671)	(1,659)
Financing activities			
Proceeds from interest-bearing loans and borrowings, net of structuring cost		415,317	83,287
Payment of interest-bearing loans and borrowings		(319,312)	(106,044)
Payment of lease liability	12	(52,027)	(44,202)
Interest payment of lease liability	12	(11,858)	(10,467)
Payment of dividends		(79,013)	-
Interest paid		(5,518)	(5,480)
Net cash flows used in financing activities		(52,411)	(82,906)
Net increase of cash and short-term deposits		9,893	41
Cash and short-term deposits at the beginning of the period		589,253	475,136
Cash and short-term deposits at the end of the period		599,146	475,177
Non-cash transactions			
Fixed assets purchased through leasing and other financial obligations		1,810	4,743
Initial recognition of Right-of-use assets		-	825,176
Addition Right-of-use assets		18,448	102,637

The accompanying notes are an integral part of these consolidated statements

Notes to the interim consolidated financial statements (continued)

InRetail Pharma S.A. and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of March 31, 2020 and December 31, 2019 and for the three month period ended March 31, 2020 and 2019

1. Identification, Business activity

a) Identification

InRetail Pharma S.A. (hereinafter “the Company”), was incorporated on August 2, 1996. As of March 31, 2020 and December 31, 2019, the Company is a subsidiary of InRetail Peru Corp. which holds 87.02 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. Defensores del Morro N ° 1277, Chorrillos, Lima, Republic of Peru.

b) Business activity

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.

c) Quicorp Group acquisition

In January 2018, the Company acquired 100 percent of Quicorp S.A. and its Subsidiaries (hereinafter Quicorp Group), see note 2. The amount paid for Quicorp shares was approximately US\$591,351,000 equivalent to S/1,898,255,000.

The acquisition of the Quicorp Group was accounted for in accordance with IFRS 3 “Business combination” applying the accounting method of purchase and incorporating the assets, liabilities acquired, including intangible assets not registered by the acquired companies, were recorded at fair value from January 26, 2018.

d) Reorganization process

In order to present a more efficient and organized structure, during 2019 and 2018, several corporate reorganization processes were performed, which involve some subsidiaries, as indicated below:

- In May and August 2019, some reorganization processes (demergers), were made. Due to such processes, Mifarma S.A.C. and Cifarma S.A.C. are now directly controlled by Quicorp S.A.; and also an equity block conformed by assets and liabilities related to the lab business were transferred to Cifarma S.A.C.

Notes to the interim consolidated financial statements (continued)

- In the General Shareholder's Meeting dated April 23, 2018, it was agreed the merger process between InRetail Pharma S.A. and IR Pharma S.A.C., the latter entity absorbed. At the same time, NG Infra II S.A. became a shareholder of the Company with the participation of 12.98 percent; see note 19(a), through an exchange of shares that involved InRetail Peru Corp.
- Between March and July 2018, several merger processes between companies in the Quicorp Group were performed, through which Mifarma S.A.C. absorbed Farmacias Peruanas S.A., Droguería La Victoria S.A.C. and Boticas Torres de Limatambo S.A.C., while Quicorp S.A. absorbed Química Suiza Comercial S.A.C.

Considering that the subsidiaries were controlled, directly and indirectly, by the Company and/or its shareholders since previous years, such reorganization processes had no impact on the consolidated financial statements as of December 31, 2019 and 2018.

The accompanying interim consolidated financial statements as of March 31, 2020 and 2019 were approved by the Board of Directors on May 14, 2020.

2. Subsidiary activities

The Company and its Subsidiaries (hereinafter the "InRetail Pharma Group") are dedicated to the commercialization, manufacturing, distribution and marketing, 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 2,095 stores as of March 31, 2020 (2,077 stores as of December 31, 2019) and have operations in Peru, Colombia, Ecuador and Bolivia.

The description of the activities of the main Subsidiaries of the Company are as follows:

- (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. This Subsidiary's legal address is Alfonso Ugarte 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. This Subsidiary's legal address is Alfonso Ugarte Avenue 1283, Loreto, Iquitos, Peru.
- (c) Quicorp S.A. is a Holding incorporated in Peru in September 2010, and maintains 100 percent 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 legal address is located at Av. República de Panamá N° 2577, Lima, Peru.

Notes to the interim consolidated financial statements (continued)

It is dedicated to the import, representation, and commercialization of pharmaceutical, food, cosmetic and, chemical nationwide, as well as other consumer 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.C., which owns 99.99% of its capital since October, 2010. Up to September 30, 2010, Cifarma S.A.C. 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.

Cifarma S.A.C. provides services related to manufacturing and packaging of pharmaceutical, cosmetic and chemical products, with Química Suiza S.A.C. as its main client.

iii. Mifarma S.A.C.

Is a Subsidiary of Química Suiza S.A.C., 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, Lima, Perú.

It is dedicated to wholesale and retail of pharmaceutical, cosmetic, perfumery, toilet, hygiene and personal care and other products for health protection and recovery.

At the General Shareholders' Meeting held on March 15, 2018, the merger of the Company with Farmacias Peruanas S.A. 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.

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

iv. 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.

Notes to the interim consolidated financial statements (continued)

- v. Vanttive S.A.C.
It was incorporated in Peru on July 11, 2012. It is a direct Subsidiary of Quimica Suiza S.A.C., a company incorporated in Peru, which owns 99.99% of its capital stock as of March 31, 2020 and December 31, 2019. 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.
- vi. 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, nutrition, chemical, cosmetic, food, veterinary, insecticidal, fertilizing and liquor products, and well as tools and machinery in general.
- vii. 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.
- viii. Quimiza Ltda.
It was incorporated on August 26, 1978. It is a distributor in the cities of Tarija, Oruro, and Potosí, as well as a distribution center in Santa Cruz, Bolivia. In addition, it has 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)

- ix. Quimica Suiza Colombia S.A.S. (Formerly 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.

- x. Albis S.A.C.

Is a private legal entity incorporated in 1998 as a result of the merger 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.

At the General Shareholders Meeting, of August 1, 2019, of Albis S.A.C. and Cifarma S.A.C. The reorganization of both companies was approved, through this reorganization, Albis S.A.C. segregates and transfers an equity block to Cifarma S.A.C. composed of assets and liabilities related to the laboratory business. The net value of the equity block is S/9,555,163, which was contributed to Cifarma S.A.C.

- xi. Jorsa de la Selva S.A.C.

Is a legal entity, Subsidiary of Albis S.A.C., mainly dedicated to the commercialization of pharmaceutical, cosmetic, perfumery, toilet, hygiene, personal care and other products for health protection and recovery. The Company's legal address is located at Av. Elías Aguirre 1107, Loreto, Perú.

- xii. 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, Lima, Perú.

At the General Shareholders Meeting of March 21, 2019, the dissolution and liquidation of Superfarma Mayorista S.A.C. was approved.

Notes to the interim consolidated financial statements (continued)

3. 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, 2020 and December 31, 2019, 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 derivative financial instruments and investments at fair value through equity 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, 2019.

(c) New accounting standards

The accounting policies adopted in the preparation of the interim combined financial statements are consistent with those followed in the preparation of the Companies annual combined financial statements for the year ended December 31, 2019, except for the adoption of the new standards and interpretations as of January 1, 2020.

The standards and amendments, and improvements to the standards that are issued, and effective up to the date of issuance of the accompanying consolidated financial statements, are disclosed below:

(i) Amendments to IFRS 3 "Business combinations": Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help Companies determine if a set of acquired activities and assets is a business or not. The modifications clarify the minimum requirements of a business, eliminate the assessment of whether market participants are capable of replacing missing items, include guidance to help entities assess whether an acquired process is substantive, limit the definitions of a business and of products, and introduce an optional proof of fair value concentration. New illustrative examples were provided together with these modifications.

Since the changes are applied prospectively to transactions or other events that occur during or after the date of the first adoption, the InRetail Pharma Group will not be affected by these changes to the transition date.

(ii) Modifications to IAS 1 "presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors": Material Definition

In October 2018, the IASB issued amendments to IAS 1 "presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" to align the definition of "material" in those standards and clarify certain aspects of the definition. The new definition states that: "Information is material if omitting it, distorting it or hiding it could be expected to influence the decisions that the main users make about the general purpose financial statements."

Modifications to the definition of material are not expected to have a significant impact on the consolidated financial statements of the InRetail Pharma Group.

(iii) Modifications to IFRS 9, IAS 39 and IFRS 7 "Reference interest rate", effective for annual periods beginning on January 1, 2020.

(iv) Modifications to the Conceptual Framework for financial information, effective for annual periods beginning on January 1, 2020.

In the management's opinion, these standards will not have a significant impact on the consolidated financial statements of the InRetail Pharma Group.

Notes to the interim consolidated financial statements (continued)

4. Cash and short-term deposits

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Cash (b)	5,585	5,468
Current accounts (c)	433,181	545,966
Time deposits (d)	142,634	6,480
Cash in transit	17,746	31,339
Total	599,146	589,253

(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.

(c) The company and its Subsidiaries maintain current accounts in local banks in the currency of each country and US Dollars. They do not accrue interest and are freely available.

(d) As of March 31, 2020, the time deposits are freely available and are kept in local and foreign banks in local currency and US Dollars, have maturities up to one month since inception and bear annual interest rates between 1.00 and 2.10 percent in local currency and between 0.60 and 0.90 percent annual in US Dollars (between 0.01 and 4.37 percent in Soles as of December 31, 2019).

5. Trade receivables, net

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Trade accounts receivable (b)	529,763	528,286
Credit card operators (d)	6,314	5,323
Total	536,077	533,609
Provision for doubtful accounts (e)	(45,937)	(44,734)
Total	490,140	488,875

(b) Trade receivables are denominated in the currency of each country and US Dollars, 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.

Notes to the interim consolidated financial statements (continued)

- (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) The movement in the provision for doubtful accounts receivable for the three-month period ended March 31, 2020 and 2019, were as follows:

	2020	2019
	S/(000)	S/(000)
Balance at the beginning of the period	44,734	45,519
Provision recognized as expense, Note 17 (a)	1,140	6,850
Recoveries, Note 17 (a)	(315)	(4,908)
Write-offs	-	(640)
Foreign currency translation	378	(296)
Others	-	<u>1</u>
Balance at the end of the period	<u>45,937</u>	<u>46,526</u>
Balance as of December 31, 2019		<u>44,734</u>

As of March 31, 2020 and December 31, 2019, the amount of overdue account receivables but non-impaired amounted to approximately S/102,718,000 and S/66,940,000, respectively.

In the opinion of Management of the InRetail Pharma Group, the provision for doubtful accounts receivables as of March 31, 2020 and December 31, 2019, appropriately covers the credit risk of this item at those dates.

6. Inventories, net

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

	As of March 31,	As of December 31,
	2020	2019
	S/(000)	S/(000)
Goods, Note 17 (a)	1,096,111	997,569
In transit inventories (b)	16,981	15,624
Raw material, Note 17 (a)	13,272	15,204
Miscellaneous supplies	2,561	2,204
Miscellaneous supplies for manufacturing, Note 17 (a)	533	1,008
Finished goods, Note 17 (a)	-	<u>189</u>
Total	<u>1,129,458</u>	<u>1,031,798</u>
Minus		
Provision for impairment of inventories (c)	(17,923)	(12,525)
Total	<u>1,111,535</u>	<u>1,019,273</u>

- (b) Corresponds to goods and miscellaneous supplies imported by the Company and its Subsidiaries in order to satisfy customers' demand in its pharmacies.

Notes to the interim consolidated financial statements (continued)

- (c) The movement in the provision for inventory impairment for the three-month period ended March 31, 2020 and 2019, were as follows:

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the period	12,525	10,763
Provision of the period, Note 17 (a)	5,293	6,320
Recovery	-	(25)
Foreign currency translation	105	(43)
Balance at the end of the period	<u>17,923</u>	<u>17,015</u>
Balance as of December 31, 2019		<u>12,525</u>

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 Company and its Subsidiaries.

7. Investment at fair value through equity

As of March 31, 2020, the Company has other investments at fair value through equity for an amount of US\$11,893,000 equivalent to S/40,828,000 (US\$13,722,000 equivalent to S/45,435,000 as of December 31, 2019).

The fair value of these instruments is determined by the price quotes published in an active market.

As of March 31, 2020 and December 31, 2019, the unrealized result net of deferred tax is S/5,444,000 and S/8,692,000 respectively and is presented in the consolidated statement of changes in equity.

Notes to the interim consolidated financial statements (continued)

8. Derivative financial instrument

As of March 31, 2020 and December 31, 2019, this item comprises of a principal Call Spread. The Call Spread contract was designated to hedge cash flows and was recorded at its fair value. The detail of this operation is as follows:

Counterparty	Nominal value	Due	Pay fix at	Book value of the hedged item	Fair value 2020	Fair value 2019
	US\$(000)		%	S/(000)	S/(000)	S/(000)
Citibank N.A.	400,000	May-23	2.38	1,376,800	88,499	63,508
Total					88,499	63,508

In April 2018, InRetail Pharma S.A. decided to hedge operations through a Foreign Currency Call Spread for the financial obligations of the "Senior Notes Unsecured", which were issued in May 2018. From the date of issuance of the "Senior Notes Unsecured", it was classified as an effective hedging instrument for the purposes of IFRS 9. See Note 13 (b).

As of March 31, 2020 and December 31 2019, this instrument covers 100 percent of the exposure in foreign currency of the principal amount and protects exchange rate variations between S/3.26 and S/3.75 per US\$1.00. The premium was financed in installments equal to the issuance.

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:

	Land	Building infrastructure and facilities	Furniture and fixture	Vehicles	Miscellaneous equipment	Work in progress	Total 2019	Total 2018
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Cost								
Initial balance	257,346	366,667	134,146	1,442	341,530	9,362	1,110,493	1,099,085
Additions (b)	-	3,758	848	39	3,146	7,609	15,400	47,196
Sales (c)	-	(628)	(744)	-	(391)	-	(1,763)	(14,163)
Disposal (c)	-	(1,571)	(449)	-	(468)	-	(2,488)	(19,962)
Transfer	-	1,032	210	-	221	(1,463)	-	-
Transfer to intangible assets, Note 10(a)	-	-	-	-	-	(166)	(166)	(654)
Foreign currency translation	-	143	461	(14)	1,537	2	2,129	(1,009)
Final balance	257,346	369,401	134,472	1,467	345,575	15,344	1,123,605	1,110,493
Accumulated depreciation								
Initial balance	-	206,453	94,866	1,096	247,385	-	549,800	510,188
Additions (d)	-	6,280	2,175	-	7,156	-	15,611	72,071
Sales (c)	-	(617)	(735)	-	(387)	-	(1,739)	(13,542)
Disposals(c)	-	(1,538)	(171)	-	(540)	-	(2,249)	(17,998)
Foreign currency translation	-	106	339	(14)	1,164	-	1,595	(919)
Final balance	-	210,684	96,474	1,082	254,778	-	563,018	549,800
Net book value	257,346	158,717	37,998	385	90,797	15,344	560,587	560,693

(b) Additions for the three-month period ended March 31, 2020 and December 31, 2019, 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 unused assets as a result of the process of change of format in some premises and closing of pharmacies. The resulting income or expense has been included in the "Other operating income (expenses) net" of the consolidated income statement, respectively.

Notes to the interim consolidated financial statements (continued)

- (d) Depreciation expense for the three-month period ended March 31, 2020 and 2019, was recorded as follows in the income statement:

	2020 S/(000)	2019 S/(000)
Sales expenses, Note 17 (a)	12,584	15,681
Administrative expenses, Note 17 (a)	1,559	2,097
Cost of sales, Note 17 (a)	1,468	1,005
Balance as of March 31	15,611	18,783
Balance as of December 31, 2019		72,071

- (e) As of March 31, 2020, the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/100,427,000 and S/70,302,000, respectively (S/105,823,000 and S/67,575,000, as of December 31, 2019).
- (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 movement and composition of this caption:

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Cost		
Initial balance	854,565	850,359
Additions (c)	2,791	6,157
Disposal and/or sales	(583)	(2,512)
Transfer from property, plant and equipment, Note 9 (a)	166	654
Foreign currency translation	139	(93)
Final balance	857,078	854,565
Accumulated amortization		
Initial balance	149,187	111,534
Additions (d)	14,157	39,658
Disposals and/or sales	(583)	(1,940)
Foreign currency translation	120	(65)
Final Balance	162,881	149,187
Goodwill		
Initial balance	1,272,634	1,272,634
Additions (b)	-	-
Final balance	1,272,634	1,272,634
Net, book value	1,966,831	1,978,012

Notes to the interim consolidated financial statements (continued)

- (b) As of March 31, 2020 and December 31, 2019, this caption mainly includes the goodwill, related to the acquisition of the Quicorp Group. Purchase price for the acquisition of Quicorp was approximately US\$591,351,000 equivalent to S/1,898,255,000 at the date of acquisition. See Note 1 (c).
- (c) As of March 31, 2020 and December 31, 2019, additions mainly correspond to: (i) disbursements for the acquisition of a commercial software program, a general planning system (ERP) and related licenses; (ii) disbursements for implementation of software and licenses in new stores of InRetail Group and (iii) recognition of trademarks and other intangibles from the acquisition of the Quicorp Group, see Note 1 (c).
- (d) Amortization expense for the three-month period ended March 31, 2020 and 2019 has been recorded in the following items of the combined statements:

	2020 S/(000)	2019 S/(000)
Sales expenses, Note 17 (a)	13,014	8,987
Administrative expenses, Note 17 (a)	1,073	1,024
Cost of sales, Note 17 (a)	70	46
Balance as of March 31	14,157	10,057
Balance as of December 31, 2019		39,658

11. Trade payables

The table below presents the composition of this caption:

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Bills payable from purchase of goods	1,430,117	1,404,911
Bills payable from commercial services	116,274	126,922
Total	1,546,391	1,531,833

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. Leases

- a) The InRetail Pharma Group maintains leasing contracts for buildings, facilities and vehicles used for its operations. Leases of buildings and facilities generally have terms of 1 to 10 years, and leases of vehicles have terms of 3 to 4 years. The InRetail Pharma Group's obligations under its leases are guaranteed by the lessor's title of the leased assets.

There are several leases that include extension and termination options and variable payments. The InRetail Pharma Group has also entered into certain leases of premises with terms of 12 months or less and leases of low-value office equipment. The InRetail Pharma Group applies the short-term and low-value lease exemptions for this kind of leases.

- b) The movement of this caption for the three-month period ended as of March 31, 2020 and December 31, 2019, is as follows:

	Buildings infrastructure and facilities	Vehicles	As of March 31, 2020	As of December 31, 2019
	S/(000)	S/(000)	S/(000)	S/(000)
Cost				
Initial balance	913,459	1,947	915,406	-
First adoption of IFRS 16	-	-	-	825,176
Additions (d)	17,195	1,253	18,448	102,637
Disposals and/or sales (c)	(329)	(90)	(419)	(11,971)
Foreign currency translation	743	61	804	(436)
Final balance	931,068	3,171	934,239	915,406
Accumulated depreciation				
Initial balance	229,734	552	230,286	-
Additions (d), Note 17	59,120	230	59,350	231,415
Disposals and/or sales (c)	(66)	(51)	(117)	(1,104)
Foreign currency translation	204	14	218	(25)
Final balance	288,992	745	289,737	230,286
Net book value	642,076	2,426	644,502	685,120

Depreciation expense for the three-month period ended March 31, 2020 and 2019, was recorded as follows in the income statement:

	2020 S/(000)	2019 S/(000)
Sales expenses, Note 17 (a)	56,869	46,098
Administrative expenses, Note 17 (a)	1,184	4,196
Cost of sales, Note 17 (a)	1,297	1,368
Balance as of March 31	59,350	51,662
Balance as of December 31, 2019		231,415

Notes to the interim consolidated financial statements (continued)

- c) The movement of the lease liability caption, as of March 31, 2020 and December 31, 2019, is as follows:

	<u>As of March 31, 2020</u>	<u>As of December 31, 2019</u>
	S(000)	S(000)
Initial balance	671,189	-
First adoption of IFRS 16	-	794,724
Additions	18,448	102,637
Increase for accrued interest, Note 19	11,858	51,887
Amortization	(64,856)	(254,208)
Disbursements made at the start of the contract	(290)	-
Disposal	(302)	(10,937)
Prepayment rents	971	(4,978)
Exchange rate	13,337	(7,551)
Foreign currency translation	656	(385)
Final balance	<u>651,011</u>	<u>671,189</u>
Current	212,828	218,620
Non-current	438,183	452,569
Final balance	<u>651,011</u>	<u>671,189</u>

Additionally, in the three-month period ended as of March 31, 2020 and 2019, interest related to the lease liability of S/11,858,000 and S/ 10,467,000, respectively, it has been accrued and is presented under "Financial expenses" in the consolidated financial statement of income.

Notes to the interim consolidated financial statements (continued)

13. Interest-bearing loans and borrowings

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

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount		Total		Current		Non-current		
				US\$ (000)	\$ (000)	S/(000)	2020 S/(000)	2019 S/(000)	2020 S/(000)	2019 S/(000)	2020 S/(000)	2019 S/(000)
Senior Notes Unsecured (b)												
Senior Notes Unsecured	PEN	6.438	2025	-	-	385,800	383,790	383,707	-	-	383,790	383,707
Senior Notes Unsecured	USD	5.375	2023	400,000	-	-	1,361,261	1,310,706	-	-	1,361,261	1,310,706
				400,000	-	385,800	1,745,051	1,694,413	-	-	1,745,051	1,694,413
Leasings												
Non related entities												
Banco Santander del Perú	PEN	7.650	2022	-	-	874	477	521	196	193	281	328
Banco de Crédito del Perú	PEN	5.500	2021	-	-	399	-	240	-	134	-	106
Banco Santander del Perú	PEN	6.920	2022	-	-	545	455	490	176	174	279	316
Banco de Crédito del Perú	PEN	7.560	2021	-	-	111	27	36	27	36	-	-
BBVA Banco Continental	PEN	4.950	2021	-	-	129	52	71	44	44	8	27
Banco Santander del Perú	PEN	8.550	2020	-	-	195	19	33	19	33	-	-
				-	-	2,253	1,030	1,391	462	614	568	777

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)	\$ (000)	S/(000)	2020	2019	2020	2019	2020	2019
				S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	
Notes and Loans												
Related entities												
Banco Internacional del Perú-Interbank (h)	PEN	4.700	2025	-	-	161,950	120,591	126,333	22,970	22,970	97,621	103,363
Non related entities												
Banco Scotiabank	PEN	Between 2.800 and 3.000	2020	-	-	46,000	-	46,000	-	46,000	-	-
Banco de Crédito del Perú	PEN	3.100	2020	-	-	15,000	-	15,000	-	15,000	-	-
Banco Scotiabank (c)	PEN	Between 2.800 and 3.050	2020	-	-	56,000	56,000	-	56,000	-	-	-
CitiBank	PEN	2.800	2020	-	-	30,000	30,000	-	30,000	-	-	-
Banco de Crédito del Perú	PEN	Between 2.950 and 4.040	2020	-	-	45,000	45,000	-	45,000	-	-	-
BBVA Banco Continental (d)	PEN	4.810	2020	-	-	40,000	40,000	-	40,000	-	-	-
Citibank (g)	USD	5.000	2022	10,000	-	-	31,549	33,170	11,472	11,056	20,077	22,114
Citibank (g)	USD	8.000	2020	1,000	-	-	3,442	-	3,442	-	-	-
Banco Pichincha (f)	USD	8.950	2020	300	-	-	1,033	995	1,033	995	-	-
Banco Pichincha	USD	8.950	2020	200	-	-	-	664	-	664	-	-
BBVA Colombia (e)	COP	6.700	2020	-	2,900,000	-	2,456	2,935	-	-	2,456	2,935
Banco Scotiabank	PEN	4.700	2025	-	-	161,950	120,610	126,353	22,973	22,973	97,637	103,380
				11,500	2,900,000	555,900	450,681	351,450	232,890	119,658	217,791	231,792
Call Spread financing, Note 8												
Citibank N.A.	USD	6.473	2023	18,297	-	-	46,167	44,491	17,403	13,731	28,764	30,760
				18,297	-	-	46,167	44,491	17,403	13,731	28,764	30,760
Other obligations (i)												
Hewlett Packard S.A.	USD	2.930	2021	12,084	-	-	11,170	11,168	6,051	6,837	5,119	4,331
				12,084	-	-	11,170	11,168	6,051	6,837	5,119	4,331
Total				441,881	2,900,000	943,953	2,254,099	2,102,913	256,806	140,840	1,997,293	1,962,073

Notes to the interim consolidated financial statements (continued)

- (b) In May 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/1,376,800,000 (equivalent to S/1,326,800,000 as of December 31, 2019) that accrues an interest of 5.375 percent annual, with a maturity of 5 years and with semiannual payments of interest and the principal in a single installment upon maturity of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 5.778 percent, after considering the respective up-front fees that amounted to US\$4,514,000 equivalent to approximately S/15,539,000 as of March 31, 2020 (US\$4,852,000 equivalent to approximately S/16,094,000 as of December 31, 2019).

Additionally, in May 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, with a maturity of 7 years and with semiannual interest payments and the principal in a single installment upon maturity of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 6.559 percent, after considering the respective up-front fees that amounted to S/2,010,000 as of March 31, 2020 (S/2,093,000 as of December 31, 2019).

As a result of these issues, InRetail Pharma must comply, until their maturity and full payment, with certain obligations and covenants.

In the opinion of Management, these covenants do not limit the operations of the Company and its Subsidiaries and have been complied satisfactorily and are within the agreed limits as of March 31, 2020 and December 31, 2019. Likewise, 100 percent of the "Senior Notes Unsecured" is guaranteed by the shares of InRetail Pharma S.A. and Subsidiaries.

- (c) Scotiabank Perú
Química Suiza S.A.C.
It corresponds to four loans amounting to S/56,000,000 with maturity in May and June 2020. The annual accrued interest rate is between 2.800 and 3.050 percent. There are no specific guarantees.

InRetail Pharma S.A.
It corresponds to one loan amounting to S/161,950,000. The annual accrued interest rate is 4.70 percent with maturity in April 2025, and quarterly payments. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 4.775 percent, after considering the respective up-front fees that amounted to S/852,000 as of March 31, 2020 (893,000 as of December 31, 2019).

As of March 31, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/40,488,000 (S/34,704,000 as of December 31, 2019).

- (d) BBVA Continental
Química Suiza S.A.C.
It corresponds to a loan amounting to S/40,000,000 with maturity in July 2020. The annual accrued interest rate is 4.810 percent annual.
- (e) BBVA Colombia
Química Suiza Colombia S.A.S. (Formerly Quideca S.A.)
As of March 31, 2020, the company had financial obligations with BBVA for an amount of \$2,900,000 under an annual fixed interest rate of 6.700 percent that may be postponed every 165 days, supported by promissory notes and guarantees granted to the bank.

Notes to the interim consolidated financial statements (continued)

- (f) Banco Pichincha
Vantive Cía Ltda.
It corresponds to one loan amounting to US\$300,000 with maturity in May 2020. The annual accrued interest rate is 8.950 percent annual.
- (g) Citibank
Quifatex S.A.
It corresponds to two loans amounting to US\$11,000,000 with maturity in September 2020 and October 2022 and accrued interest rate of 8.000 and 5.000 percent annual.
- (h) Banco Internacional del Perú-Interbank
InRetail Pharma S.A.
Corresponds to a loan granted for S/161,950,000 that accrues an annual nominal interest of 4.70 percent, with maturity in April 2025, payable quarterly. This loan is recorded at amortized cost at an effective rate of 4.775 percent, after considering the initial charges of S/872,000 as of March 31, 2020 (S/913,000 as of December 31, 2019).
- As of March 31, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/40,487,000 (S/34,704,000 as of December 31, 2019).
- (i) Corresponds to the debt acquired with Hewlett Packard S.A., for the purchase and leasing of computer equipment. These contracts do not have specific guarantees.
- (j) During the three-month period ended March 31, 2020 and 2019, loans and borrowings accrued interests which are recorded in the "Financial expenses" caption of the consolidated income statement, see Note 18. Also, as of March 31, 2020 and December 31, 2019, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (k) 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, 2020 and December 31, 2019, standard clauses do not limit the normal operation of the InRetail Pharma Group and have been fulfilled.
- (l) Financial obligations are payable as follows:

	2020	2019
	S/ (000)	S/ (000)
2020	240,948	140,840
2021	71,397	76,176
2022	72,847	71,168
2023	1,407,428	1,355,197
2024 onwards	461,479	459,532
Total	2,254,099	2,102,913

Notes to the interim consolidated financial statements (continued)

14. Income tax

- (a) The amounts presented in the statement of financial position as of March 31, 2020 and December 31, 2019, as well as the consolidated income statements for the three-month period ended March 31, 2020 and 2019 are shown below:

Statements of financial position	As of March 31, 2020		As of December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
InRetail Pharma S.A.	10,212	-	-	5,143
Eckerd Amazonia S.A.C.	610	-	510	-
Boticas del Oriente S.A.C.	567	-	490	-
Química Suiza S.A.C.	-	40,806	-	39,108
Cifarma S.A.C.	935	-	715	-
Vanttive S.A.C.	32	-	28	-
Quicorp S.A.	989	-	248	-
Quifatex S.A.	5,562	-	5,400	-
Vanttive Cía Ltda.	76	-	73	-
Quimiza Ltda.	705	-	702	-
Química Suiza Colombia S.A.S. (formerly Quideca S.A.)	755	-	761	-
Mifarma S.A.C.	21,441	-	15,823	-
Albis S.A.C.	18,682	-	19,699	-
Jorsa de la Selva S.A.C.	1,560	-	1,760	-
Mifarma S.A. (formerly Empresa Comercializadora Mifarma S.A.)	83	-	84	-
Consolidation adjustment	-	191,939	-	196,511
Total	62,209	232,745	46,293	240,762

Statements of comprehensive income	Income tax for the three-months period ended March 31, 2020 and 2019	
	2020	2019
	S/(000)	S/(000)
Current	(44,976)	(42,462)
Deferred	16,089	16,512
Income tax expense	(28,887)	(25,950)

- (b) As of March 31, 2020 and December 31, 2019, the liability for income tax, net of the advanced tax, amount to approximately S/19,633,000 and S/21,907,000, respectively. Also, as of March 31, 2020 and December 31, 2019, the income tax credit amounts to approximately S/39,225,000 and S/31,955,000, respectively.

15. Equity

- (a) Capital stock –
As of March 31, 2020 and December 31, 2019, the capital stock of the Company is represented by 15,839,379 common shares, with a nominal value of S/1.00 each, which are entirely authorized and paid.

Notes to the interim consolidated financial statements (continued)

(b) Capital Premium –

Corresponds 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.

In April 2018, the merger by absorption of IR Pharma S.A.C., generated an exchange of shares for an equity received of S/481,500,000, issuing shares of S/2,056,000 and recognizing a capital premium of S/479,444,000.

(c) Legal reserve –

As of March 31, 2020 and December 31, 2019, 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.

(d) Distribution of dividends –

At the General Shareholders' Meetings of InRetail Pharma S.A. held on February 10, 2020 and March 13, 2020, was approved, the dividend distribution of S/79,000,000 and S/13,000, respectively.

16. 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, 2020 and December 31, 2019, the income tax rate was:

Country	%
Perú	29.5
Ecuador	25.0
Bolivia	25.0
Colombia	33.0

Notes to the interim consolidated financial statements (continued)

(b) Entities and individuals not domiciled in Peru must pay an additional tax over dividends received. In this regard, attention to Legislative Decree N° 1261, 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.

(c) Law No. 29663, later amended by law No. 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 domiciled 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, 2020 and December 31, 2019.

(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 Pharma S.A. incorporated in Peru and foreign:

	Income Tax	Value added tax
InRetail Pharma S.A.	From 2015 to 2019	From 2015 to 2020
Eckerd Amazonía S.A.C.	From 2015 to 2019	From 2015 to 2020
Boticas del Oriente S.A.C.	From 2015 to 2019	From 2015 to 2020
Quicorp S.A.	From 2015 to 2019	From 2015 to 2020
Química Suiza Comercial S.A.C.	From 2014 to 2018	From 2014 to 2018
Superfarma Mayorista S.A.C	From 2016 to 2019	From 2015 to 2020
Vanttive S.A.C.	From 2015 to 2019	From 2015 to 2020
Cifarma S.A.C.	From 2015 to 2019	From 2015 to 2020
Vanttive Cía Ltda.	From 2015 to 2019	From 2015 to 2020
Química Suiza S.A.C.	From 2016 to 2019	From 2016 to 2020
Quifatex S.A.	From 2016 to 2019	From 2016 to 2020
Química Suiza Colombia S.A.S. (formerly Quideca S.A.)	From 2014 to 2019	From 2014 to 2020
Quimiza Ltda.	From 2013 to 2019	From 2013 to 2020
Droguería La Victoria S.A.C.	From 2015 to 2018	From 2015 to 2018
Jorsa de la Selva S.A.C.	From 2015 to 2019	From 2020 to 2020
Mifarma S.A.C.	From 2015 to 2019	From 2015 to 2020
Albis S.A.C.	From 2016 to 2019	From 2016 to 2020
Botica Torres de Limatambo S.A.C.	From 2015 to 2018	From 2015 to 2018
Mifarma S.A. (formerly Empresa Comercializadora Mifarma S.A.)	From 2010 to 2019	From 2010 to 2020
Farmacias Peruanas S.A.	From 2016 to 2018	From 2016 to 2018

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, 2020 and December 31, 2019.

- (f) As of March 31, 2020 and December 31, 2019, estimated losses from previous periods for Subsidiaries for tax purposes are the following:

	As of March 31, 2020	As of December 31, 2019
	S/(000)	S/(000)
Albis S.A.C.	50,315	55,494
Jorsa de la Selva S.A.C.	909	1,959
Quicorp S.A	3,354	841
Vanttive S.A.C.	-	1
Total	54,578	58,295

According to the Income Tax Act and its amendments, 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.C., Quicorp S.A. and Vanttive S.A.C. have chosen method (i) and Jorsa de la Selva S.A.C. the method (ii).

Notes to the interim consolidated financial statements (continued)

17. Operating expenses

(a) The table below presents the components of this caption for the three-month period ended March 31, 2020 and 2019:

	2020 S/(000)	2019 S/(000)
Cost of sales	1,175,189	1,186,748
Selling expenses	324,140	318,534
Administrative expenses	57,746	66,389
Total	<u>1,557,075</u>	<u>1,571,671</u>

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

	2020			
	Cost of sales S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	Total S/(000)
Initial balance of goods, Note 6 (a)	997,569	-	-	997,569
Initial balance of raw material, Note 6 (a)	15,204	-	-	15,204
Initial balance of suppliers, Note 6 (a)	1,008	-	-	1,008
Initial balance of finished goods, Note 6 (a)	189	-	-	189
Purchase of goods and suppliers	1,250,689	-	-	1,250,689
Final balance of goods, Note 6 (a)	(1,096,111)	-	-	(1,096,111)
Final balance of raw materials, Note 6 (a)	(13,272)	-	-	(13,272)
Final balance of suppliers, Note 6 (a)	(533)	-	-	(533)
Impairment of inventories Note 6 (c)	5,293	-	-	5,293
Factory overhead	6,137	-	-	6,137
Personnel expenses	-	149,827	41,749	191,576
Depreciation, Note 9 (d)	1,468	12,584	1,559	15,611
Depreciation of right-of-use asset, Note 12 (b)	1,297	56,869	1,184	59,350
Amortization, Note 10 (d)	70	13,014	1,073	14,157
Services provided by third parties (b)	-	59,433	8,430	67,863
Advertising	-	13,908	-	13,908
Packing and packaging	-	2,332	29	2,361
Rental of premises	-	5,018	73	5,091
Taxes	-	2,365	1,183	3,548
Provision for doubtful trade receivables, Note 5(e)	-	1,091	49	1,140
Recoveries of provision trade account receivables, Note 5(e)	-	(315)	-	(315)
Insurance	-	2,576	169	2,745
Other charges (c)	6,181	5,438	2,248	13,867
Total	<u>1,175,189</u>	<u>324,140</u>	<u>57,746</u>	<u>1,557,075</u>

Notes to the interim consolidated financial statements (continued)

	2019			Total S/(000)
	Cost Of sales S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	
Initial balance of goods	1,022,755	-	-	1,022,755
Initial balance of raw material	11,796	-	-	11,796
Initial balance of suppliers	1,075	-	-	1,075
Initial balance of finished goods	672	-	-	672
Purchase of goods	1,121,766	-	-	1,121,766
Final balance of goods	(982,120)	-	-	(982,120)
Final balance of raw materials	(11,969)	-	-	(11,969)
Final balance of suppliers	(1,075)	-	-	(1,075)
Final balance of finished goods	(382)	-	-	(382)
Impairment of inventories, Note 6 (c)	6,320	-	-	6,320
Factory overhead	5,538	-	-	5,538
Personnel expenses	9,107	147,339	42,823	199,269
Depreciation, Note 9 (d)	1,005	15,681	2,097	18,783
Depreciation of right-of-use asset, Note 12 (b)	1,368	46,098	4,196	51,662
Amortization, Note 10 (d)	46	8,987	1,024	10,057
Advertising	-	12,152	3	12,155
Packing and packaging	-	3,395	26	3,421
Rental of premises	-	12,805	552	13,357
Taxes	-	2,171	3,019	5,190
Provision for doubtful trade receivables, Note 5(e)	-	6,848	2	6,850
Recovery of provision for doubtful, Note 5(e)	-	(4,908)	-	(4,908)
Insurance	-	2,989	184	3,173
Other charges (c)	846	6,854	3,393	11,093
Total	1,186,748	318,534	66,389	1,571,671

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

(c) Mainly includes general expenses in stores.

18. Financial expenses

(a) The table below presents the components of financial expenses:

	2020 S/(000)	2019 S/(000)
Interest on loans, borrowings and bonds payable	29,589	28,843
Interest on loans with related parties	-	1,806
Interest on lease liability, Note 12 (c)	11,858	10,467
Accrual of structuring cost of financial obligation	1,216	1,265
Interest from derivative instruments "Call Spread"	746	889
Premium accrual of "Call Spread"	2,973	2,707
Other financial expenses	1,233	3,291
Total	47,615	49,268

(b) As of March 31, 2020 and December 31, 2019, there are interest payable for these obligations for approximately S/44,591,000 and S/18,557,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.

Notes to the interim consolidated financial statements (continued)

19. 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 period ended as of March 31, 2020 and 2019:

	2020 S/(000)	2019 S/(000)
Income		
Sales	6,816	10,631
Rendering of services	350	86
Others	512	497
Total	7,678	11,214
Expenses		
Renting of premises and land	663	-
Reimbursement of expenses	735	1,244
Other services	998	741
Interest	-	1,783
Others	1,479	1,700
Total	3,875	5,468

(b) As a result of the transactions with related companies, the InRetail Pharma Group recorded the following balances as of March 31, 2020 and December 31, 2019:

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Receivables		
Real Plaza S.R.L.	2	-
Supermercados Peruanos S.A. (d)	7,582	7,834
Homecenters Peruanos S.A. (d)	114	138
Homecenters Oriente S.A.C.	6	13
Financiera Oh! S.A.	530	767
IR Management S.R.L.	2	-
Plaza Veá Oriente S.A.C. (d)	269	225
Others	62	-
Total	8,567	8,977

Notes to the interim consolidated financial statements (continued)

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Payables		
Homecenters Peruanos S.A.	27	17
Plaza Veá Oriente S.A.C.	28	-
Financiera Oh! S.A.	1,483	685
Plaza Veá Sur S.A.C.	10	-
Tiendas Peruanas S.A.	2	-
Centro Comercial Estación Central S.A.	8	16
Real Plaza S.R.L.	132	78
Supermercados Peruanos S.A.	1,202	1,555
IR Management S.R.L.	315	668
InRetail Consumer	456	701
Inmobiliaria Puerta del Sol S.A.	45	-
Other related	113	255
Total	3,821	3,975

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.

- (c) Outstanding balances at period-end are unsecured and interest free, except for the financial obligations explained in this note. There have been no guarantees provided or received for any related party receivables or payables. As of March 31, 2020 and December 31, 2019, 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) Corresponds to the balances pending for the sale of goods of Química Suiza S.A.C. as of March 31, 2020.
- (e) The compensation of key management personnel of the InRetail Pharma Group for the three-month period ended March 31, 2020 and 2019, is detailed below:

	2020 S/(000)	2019 S/(000)
Short term employee benefits	10,383	9,005
Insurance and medical benefits	9	5
Employment benefits for contract termination	409	3,014
Total	10,801	12,024

- (f) As of March 31, 2020 and December 31, 2019, the InRetail Pharma Group maintains the following balances in the cash and cash equivalent captions:

	2020 S/(000)	2019 S/(000)
Banco Internacional del Perú – Interbank S.A.A.	286,866	274,094
Inteligo Bank Ltd.	170	-

Notes to the interim consolidated financial statements (continued)

20. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the three-month period 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:

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 31, 2019	15,839,379	90	15,839,379
Share issued in the period	-		-
Number as of March 31, 2019	<u>15,839,379</u>		<u>15,839,379</u>
Number as of January 1, 2020	15,839,379	90	15,839,379
Number as of March 31, 2020	<u>15,839,379</u>		<u>15,839,379</u>
	For the three-months-period ended March 31, 2020		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	<u>61,657,000</u>	<u>15,839,379</u>	<u>3.893</u>
	For the three-months-period ended March 31, 2019		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	<u>69,120,000</u>	<u>15,839,379</u>	<u>4.364</u>

Notes to the interim consolidated financial statements (continued)

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

21. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of March 31, 2020, the Company and its Subsidiaries agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/50,464,000, US\$2,612,000 and b\$384,000 (S/61,211,000, US\$6,352,000 and b\$646,000 as of December 31, 2019), 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, 2020 and December 31, 2019.
- (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.C.
 - The Peruvian tax Administration (SUNAT) has some objections related to the tax base for income tax and value added tax for the year 2001, 2003, 2008, 2009, 2011, 2012, 2013, 2014 y 2015 in the amount of S/15,835,000. Mifarma S.A.C. 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.

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.

Notes to the interim consolidated financial statements (continued)

- 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.

22. 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 chains 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, 2020 and December 31, 2019, and for the three-month period ended March 31, 2020 and 2019, InRetail Pharma S.A. is organized into two main business lines. Transactions between the business segments are carried out under normal commercial terms and conditions. The following table presents the financial information of InRetail Pharma Group by business segments for the three-month period ended March 31, 2020 and 2019

	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 period ended March 31, 2020					
Revenue					
External income	1,265,743	439,341	1,705,084	-	1,705,084
Inter-segment	3,890	191,595	195,485	(195,485)	-
Total revenue	1,269,633	630,936	1,900,569	(195,485)	1,705,084
Cost of sales	(628,508)	(546,681)	(1,175,189)	-	(1,175,189)
Inter-segment	(186,683)	(3,860)	(190,543)	190,543	-
Gross profit	454,442	80,395	534,837	(4,942)	529,895
Selling expenses	(263,042)	(50,068)	(313,110)	(11,030)	(324,140)
Administrative expenses	(42,183)	(15,599)	(57,782)	36	(57,746)
Other operating income, net	2,215	341	2,556	-	2,556
Operating profit	151,432	15,069	166,501	(15,936)	150,565
Exchange difference, net	(16,244)	161	(16,083)	-	(16,083)
Financial income	6,588	3,227	9,815	(6,138)	3,677
Financial expenses	(47,739)	(6,014)	(53,753)	6,138	(47,615)
Profit before income tax	94,037	12,443	106,480	(15,936)	90,544
Income tax expense	(28,529)	(4,927)	(33,456)	4,569	(28,887)
Profit for the year	65,508	7,516	73,024	(11,367)	61,657
Attributable to:					
Owners of the parent	65,508	7,516	73,024	(11,367)	61,657
Non-controlling interests	-	-	-	-	-
Net profit	65,508	7,516	73,024	(11,367)	61,657

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 period ended March 31, 2019					
Revenue					
External income	1,236,011	468,512	1,704,523	-	1,704,523
Inter-segment	1,505	152,590	154,095	(154,095)	-
Total revenue	1,237,516	621,102	1,858,618	(154,095)	1,704,523
Cost of sales	(655,344)	(531,404)	(1,186,748)	-	(1,186,748)
Inter-segment	(150,361)	(1,372)	(151,733)	151,733	-
Gross profit	431,811	88,326	520,137	(2,362)	517,775
Selling expenses	(261,203)	(55,190)	(316,393)	(2,141)	(318,534)
Administrative expenses	(44,895)	(21,588)	(66,483)	94	(66,389)
Other operating income (expenses), net	(378)	562	184	-	184
Operating profit	125,335	12,110	137,445	(4,409)	133,036
Exchange difference, net	7,919	212	8,131	(1)	8,130
Financial income	7,674	625	8,299	(5,127)	3,172
Finance expenses	(47,878)	(6,049)	(53,927)	4,659	(49,268)
Profit before income tax	93,050	6,898	99,948	(4,878)	95,070
Income tax expense	(28,977)	(2,926)	(31,903)	5,953	(25,950)
Profit for the year	64,073	3,972	68,045	1,075	69,120
Attributable to:					
Owners of the parent	64,073	3,972	68,045	1,075	69,120
Non-controlling interests	-	-	-	-	-
Net profit	64,073	3,972	68,045	1,075	69,120

Inter-segment revenues are eliminated upon consolidation and reflected also in the “Adjustments and eliminations” column.

Geographic information-

As of March 31, 2020 and December 31, 2019, 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.

23. 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 isn't an exact 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 month), 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) Investment at fair value through equity

Fair value of investment at fair value through equity is derived from quoted market prices in active markets, if available. Fair value of unquoted investment at fair value through equity is estimated using a discounted cash flow technique.

Notes to the interim consolidated financial statements (continued)

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:

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 three-month period ended March 31, 2020 and 2019. The InRetail Pharma Group maintains the following financial instruments at fair value:

- Investment at fair value through equity which fair value was determined under level 1 hierarchy.
- Derivative instrument which fair value was determined under level 2 hierarchy.

24. 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, 2020 the end of period exchange rates in the market for transactions in US Dollars were S/3.433 per US\$1.00 bid and S/3.442 per US\$ 1.00 ask (S/3.311 and S/3.317 per US\$1.00 for bid and ask as of December 31, 2019).

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by authorized entities of the country in which the Company and its Subsidiaries operate. As of March 31, 2020 and December 31, 2019, the end of period exchange rate at the market for transactions of the different currency in relation to the Sol are as following:

<u>Exchange rate per soles</u>	<u>2020</u>	<u>2019</u>
U. S. Dollars (US\$)	0.291	0.302
Bolivian Peso (b\$)	2.022	2.029
Colombian Peso (\$)	1,180.944	990.246

Notes to the interim consolidated financial statements (continued)

As of March 31, 2020 and December 31, 2019, the InRetail Pharma Group held the following foreign currency assets and liabilities:

	As of March 31, 2020			As of December 31, 2019		
	US\$(000)	b\$(000)	\$(000)	US\$(000)	b\$(000)	\$(000)
Assets						
Cash and short-term deposits	10,663	12,474	1,162,074	11,769	6,669	679,864
Investments at fair value through equity	11,893	-	-	13,722	-	-
Trade receivables, net	55,963	46,536	10,704,785	51,762	45,088	9,833,962
Other accounts receivables, net	5,163	6,508	-	5,000	4,632	-
Accounts receivable from related parties	2,034	763	-	81	-	-
Total assets	85,716	66,281	11,866,859	82,334	56,389	10,513,826
Liabilities						
Trade payables	(50,266)	(33,496)	(8,958,449)	(61,703)	(28,498)	(5,484,008)
Other payables	(17,948)	(12,760)	-	(11,830)	(13,089)	-
Accounts payable to related parties	(3,095)	(763)	-	-	-	-
Lease liability	(100,083)	(2,245)	-	(110,102)	(2,506)	-
Interest - bearing loans and borrowings	(428,420)	-	(2,900,000)	(422,428)	-	(3,600,000)
Total Liabilities	(599,812)	(49,264)	(11,858,449)	(606,063)	(44,093)	(9,084,008)
Call Spread	400,000	-	-	400,000	-	-
Net (liability) assets position	(114,096)	17,017	8,410	(123,729)	12,296	1,429,818

As of March 31, 2020 and December 31, 2019, InRetail Pharma and its Subsidiaries have decided to reduce its exchange rate risk by entering into a hedging operation through a Call Spread written over its "Senior Notes Unsecured", which is considered an effective hedging instrument.

The Call Spread is written over a nominal amount of US\$400,000,000 as of March 31, 2020 and December 31, 2019, protects it from exchange rate fluctuations between S/3.26 and S/3.75 as of March 31, 2020 and December 31, 2019 and will be effective until maturity of the "Senior Notes Unsecured". See further detail in Note 8 and 13.

25. Subsequent event

- a) In March 2020, the World Health Agency "WHO" declared the coronavirus outbreak as a pandemic. In turn, the Peruvian authorities, where the Company and its Subsidiaries mainly carry out their operations, are taking the necessary measures to prevent the spread of the virus.

The Company and its Subsidiaries have taken all the appropriate measures to safeguard the health of workers and ensure their critical processes. However, as of the date of the financial statements, given the uncertainty and the rapid evolution of the circumstances explained above, including the potential actions that could be taken to contain it; It is not possible to predict the extent to which it will negatively affect the operation and financial results of the Company and its Subsidiaries in the future, even more so if it continues over time.

The Company's Management and its subsidiaries estimate that the impact of pandemic will not have a significant impact on the consolidated financial statements.

- b) At the General Shareholders' Meeting of April 30, 2020, the distribution of dividends was approved for a value of US \$ 17,891,755, which was paid on May 8, 2020.

26. 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.