

InRetail Pharma S.A. and Subsidiaries

Interim consolidated financial statements as of June 30, 2020, (non-audited) and December 31, 2019 (audited) and for the six-month period ended June 30, 2020 and 2019

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Interim consolidated statements of financial position

As of June 30, 2020 (unaudited) and December 31, 2019 (audited)

	Note	2020 S/(000)	2019 S/(000)		Note	2020 S/(000)	2019 S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	368,140	589,253	Trade payables	11	1,449,775	1,531,833
Trade receivables, net	5	513,975	488,875	Other payables		251,177	241,430
Other receivables, net		62,144	37,525	Accounts payable to related parties	19(b)	3,712	3,975
Accounts receivables from related parties	19(b)	123,121	8,977	Interest-bearing loans and borrowings	13	261,522	140,840
Inventories, net	6	1,110,769	1,019,273	Lease liability	12(c)	187,410	218,620
Taxes recoverable		53,167	51,205	Current income tax	14(b)	21,209	21,907
Prepayments		10,316	5,676	Total current liabilities		2,174,805	2,158,605
Total current assets		2,241,632	2,200,784				
Non-current assets				Non-current liabilities			
Other receivables, net		26,991	24,745	Other payables		1,769	1,424
Investments at fair value through equity	7	45,801	45,435	Interest-bearing loans and borrowings	13	2,031,275	1,962,073
Derivative financial instrument	8	104,357	63,508	Lease liability	12(c)	453,113	452,569
Property, furniture and equipment, net	9	556,620	560,693	Reserves for employee retirement pension funds		21,954	19,865
Right-of-use assets, net	12(b)	621,875	685,120	Deferred income tax liabilities, net	14(a)	239,774	240,762
Intangible assets, net	10	1,956,171	1,978,012	Total non-current liabilities		2,747,885	2,676,693
Deferred income tax assets, net	14(a)	81,468	46,293	Total liabilities		4,922,690	4,835,298
Other assets		7,212	7,208				
Total non-current assets		3,400,495	3,411,014	Equity			
Total assets		5,642,127	5,611,798	Capital stock	15(a)	15,840	15,840
				Capital premium	15(b)	482,835	482,835
				Other reserves		3,701	2,449
				Unrealized results from derivative financial instruments		(33,483)	(3,373)
				Unrealized results from valuation of investment at fair value		8,950	8,692
				Unrealized results from actuarial reserve for retirement		477	477
				Unrealized results from foreign currency translation		1,109	(239)
				Retained earnings		240,008	269,819
				Total equity		719,437	776,500
				Total liabilities and equity		5,642,127	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 six-month period ended June 30, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Net sales of goods		3,246,266	3,285,006
Rental income		39,766	28,511
Rendering of services		96,294	78,814
Revenue		3,382,326	3,392,331
Cost of sales	17	(2,352,284)	(2,363,821)
Gross profit		1,030,042	1,028,510
Selling expenses	17	(632,816)	(635,749)
Administrative expenses	17	(119,875)	(124,187)
Other operating income, net		3,279	1,118
Operating profit		280,630	269,692
Financial income		6,548	8,214
Financial expenses	18	(95,652)	(99,309)
Exchange difference, net		(25,235)	11,172
Profit before income tax		166,291	189,769
Income tax expense	14(a)	(55,488)	(58,865)
Net profit		110,803	130,904
Earnings per share:			
Basic and diluted profit for the period	20	6.995	8.264

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 six-month period ended June 30, 2020 and 2019

	2020	2019
	S/(000)	S/(000)
Profit for the period	110,803	130,904
Other comprehensive income		
Unrealized gain on investments at fair value through equity	366	12,783
Income tax effect	(108)	(3,771)
Total other comprehensive income from investments at fair value through equity	258	9,012
Unrealized (loss) gain from derivative financial instrument	(42,710)	31,107
Income tax effect	12,600	(9,176)
Total comprehensive income from derivative financial instruments	(30,110)	21,931
Unrealized gain (loss) from foreign currency translation	1,348	(430)
Total comprehensive income from foreign currency translation	1,348	(430)
Other comprehensive income for the period, net of income tax effects	(28,504)	30,513
Total comprehensive income for the period	82,299	161,417

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 six-month period ended June 30, 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	180	6	107,875	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	180	6	113,304	604,495
Profit for the period	-	-	-	-	-	-	-	130,904	130,904
Other comprehensive income	-	-	-	21,931	9,012	-	(430)	-	30,513
Total comprehensive income	-	-	-	21,931	9,012	-	(430)	130,904	161,417
Dividends	-	-	-	-	-	-	-	(99,630)	(99,630)
Balance as of June 30, 2019	15,840	482,835	2,449	9,575	11,249	180	(424)	144,578	666,282
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	-	-	-	-	-	-	-	110,803	110,803
Other comprehensive income	-	-	-	(30,110)	258	-	1,348	-	(28,504)
Total comprehensive income	-	-	-	(30,110)	258	-	1,348	110,803	82,299
Dividends paid	-	-	-	-	-	-	-	(139,362)	(139,362)
Transfer to other reserve	-	-	1,252	-	-	-	-	(1,252)	-
Balance as of June 30, 2020	15,840	482,835	2,449	(33,483)	8,950	477	1,109	240,008	719,437

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 six-month period ended June 30, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Operating activities			
Revenue		3,352,747	3,397,825
Payment of goods and services to suppliers		(2,712,432)	(2,671,647)
Payment of salaries and social benefits to employees		(380,436)	(369,745)
Taxes paid		(89,712)	(61,757)
Recovery of taxes		3,800	13,250
Other payments, net		(13,978)	(14,015)
Net cash flows from operating activities		159,989	293,911
Investing activities			
Rescue of investments at fair value through profit or loss		-	1,000
Purchase of investments at fair value through equity		-	(29,143)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts		(22,554)	(12,571)
Loans granted to related parties		(111,000)	(115,385)
Purchase and development of intangible assets		(6,517)	(748)
Net cash flows used in investing activities		(140,071)	(156,847)
Financing activities			
Proceeds from interest-bearing loans and borrowings, net of structuring cost		534,228	141,481
Payment of interest-bearing loans and borrowings		(444,308)	(215,084)
Payment of lease liability	12	(106,139)	(92,533)
Interest payment of lease liability	12	(22,989)	(23,619)
Payment of dividends		(139,362)	(99,630)
Interest paid		(62,461)	(61,066)
Net cash flows used in financing activities		(241,031)	(350,451)
Net decrease of cash and short-term deposits		(221,113)	(213,387)
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		368,140	261,749
Non-cash transactions			
Fixed assets purchased through leasing and other financial obligations		4,010	70
Initial recognition of Right-of-use assets		-	731,125
Addition of Right-of-use assets		51,838	31,447

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 June 30, 2020 and December 31, 2019 and for the six month period ended June 30, 2020 and 2019

1. Identification, business activity, Quicorp Group acquisition, reorganization process and pandemic

a) Identification

InRetail Pharma S.A. (hereinafter “the Company”), was incorporated on August 2, 1996. As of June 30, 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.

e) Pandemic

In March 2020, the World Health Agency "WHO" declared the coronavirus outbreak as a pandemic. The Company and its Subsidiaries have taken all the appropriate measures to safeguard the health of workers and ensure their critical processes.

The Peruvian Government, with the determination to reduce the impact on the Peruvian economy, granted a subsidy for each worker whose labor contract does not set the term thereof or if the term is set after March 15, 2020. The subsidy was paid to the subsidiaries of the Company, on April 16, 2020 for S/1,884,000.

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

The accompanying interim consolidated financial statements as of June 30, 2020 and 2019 were approved by the Board of Directors on August 13, 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 2,089 stores as of June 30, 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.

Notes to the interim consolidated financial statements (continued)

- (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.
- 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 Quicorp S.A., product of the spin-off approved on May 1, 2019, who owns 99.99% of its share capital. Until April 30, 2019, it was a subsidiary of Química Suiza S.A.C. and 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 Quicorp S.A., product of the spin-off approved on May 1, 2019, who owns 99.99% of its capital. It was incorporated on November 22, 2005. Until April 30, 2019, it was a subsidiary of Química Suiza S.A.C. 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.

Notes to the interim consolidated financial statements (continued)

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.

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 June 30, 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, changes in the accounting policies of the Pharma group

(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 June 30, 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 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 by 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 June 30, 2020 S/(000)	As of December 31, 2019 S/(000)
Cash (b)	5,488	5,468
Current accounts (c)	265,645	545,966
Time deposits (d)	64,077	6,480
Cash in transit	32,930	31,339
Total	368,140	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 June 30, 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 0.01 and 4.47 percent in local currency (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 June 30, 2020 S/(000)	As of December 31, 2019 S/(000)
Trade accounts receivable (b)	552,514	528,286
Credit card operators (c)	9,549	5,323
Total	562,063	533,609
Provision for doubtful accounts (d)	(48,088)	(44,734)
Total	513,975	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 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.

Notes to the interim consolidated financial statements (continued)

- (d) The movement in the provision for doubtful accounts receivable for the six-month period ended June 30, 2020 and 2019, were as follows:

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the period	44,734	45,519
Provision recognized as expense, Note 17 (a)	2,932	3,294
Recoveries, Note 17 (a)	(571)	(578)
Write-offs	(265)	(944)
Foreign currency translation	309	(492)
Others	949	(139)
Balance at the end of the period	48,088	46,660
Balance as of December 31, 2019		44,734

As of June 30, 2020 and December 31, 2019, the amount of overdue account receivables but non-impaired amounted to approximately S/123,031,000 and S/66,940,000, respectively.

In the opinion of Management of the InRetail Pharma Group, the provision for doubtful accounts receivables as of June 30, 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 June 30, 2020 S/(000)	As of December 31, 2019 S/(000)
Goods, Note 17 (a)	1,095,122	997,569
In transit inventories (b)	20,933	15,624
Raw material, Note 17 (a)	15,583	15,204
Miscellaneous supplies	2,826	2,204
Miscellaneous supplies for manufacturing, Note 17 (a)	564	1,008
Finished goods, Note 17 (a)	73	189
Total	1,135,101	1,031,798
Minus		
Provision for impairment of inventories (c)	(24,332)	(12,525)
Total	1,110,769	1,019,273

- (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 six-month period ended June 30, 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)	11,653	10,509
Recovery	(51)	(299)
Write-off	-	(930)
Foreign currency translation	205	(63)
Balance at the end of the period	24,332	19,980
Balance as of December 31, 2019		12,525

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 June 30, 2020, the Company has other investments at fair value through equity for an amount of US\$12,960,000 equivalent to S/45,801,000 (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 June 30, 2020 and December 31, 2019, the unrealized result net of deferred tax is S/8,950,000 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 June 30, 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:

<u>Counterparty</u>	<u>Nominal value</u> US\$(000)	<u>Due</u>	<u>Pay fix at</u> %	<u>Book value of the hedged item</u> S/(000)	<u>Fair value 2020</u> S/(000)	<u>Fair value 2019</u> S/(000)
Citibank N.A.	400,000	May-23	2.38	1,416,400	104,357	63,508
Total					104,357	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 June 30, 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 S/(000)	Building infrastructure and facilities S/(000)	Furniture and fixture S/(000)	Vehicles S/(000)	Miscellaneous equipment S/(000)	Work in progress S/(000)	Total 2020 S/(000)	Total 2019 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)	-	6,601	1,385	88	8,263	10,227	26,564	47,196
Sales (c)	-	(588)	(744)	-	(429)	-	(1,761)	(14,163)
Disposal (c)	-	(1,792)	(194)	-	(796)	-	(2,782)	(19,962)
Transfer	-	3,262	850	-	1,766	(5,878)	-	-
Transfer to intangible assets, Note 10(a)	-	-	-	-	-	(166)	(166)	(654)
Foreign currency translation	-	267	667	(6)	2,987	12	3,927	(1,009)
Final balance	257,346	374,417	136,110	1,524	353,321	13,557	1,136,275	1,110,493
Accumulated depreciation								
Initial balance	-	206,453	94,866	1,096	247,385	-	549,800	510,188
Additions (d)	-	12,580	4,295	94	14,180	-	31,149	72,071
Sales (c)	-	(499)	(735)	-	(422)	-	(1,656)	(13,542)
Disposals(c)	-	(1,707)	(180)	-	(642)	-	(2,529)	(17,998)
Foreign currency translation	-	206	552	(6)	2,139	-	2,891	(919)
Final balance	-	217,033	98,798	1,184	262,640	-	579,655	549,800
Net book value	257,346	157,384	37,312	340	90,681	13,557	556,620	560,693

(b) Additions for the six-month period ended June 30, 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 six-month period ended June 30, 2020 and 2019, was recorded as follows in the income statement:

	2020	2019
	S/(000)	S/(000)
Sales expenses, Note 17 (a)	25,014	29,956
Administrative expenses, Note 17 (a)	3,207	3,816
Cost of sales, Note 17 (a)	2,928	2,112
Balance as of June 30	31,149	35,884
Balance as of December 31, 2019		72,071

- (e) As of June 30, 2020, the cost and corresponding accumulated depreciation of assets acquired through financial leases amount to approximately S/101,903,000 and S/72,993,000, 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 June 30,	As of December 31,
	2020	2019
	S/(000)	S/(000)
Cost		
Initial balance	854,565	850,359
Additions (c)	6,517	6,157
Disposal and/or sales	(608)	(2,512)
Transfer from property, plant and equipment, Note 9 (a)	166	654
Foreign currency translation	251	(93)
Final balance	860,891	854,565
Accumulated amortization		
Initial balance	149,187	111,534
Additions (d)	28,549	39,658
Disposals and/or sales	(608)	(1,940)
Foreign currency translation	226	(65)
Final Balance	177,354	149,187
Goodwill		
Initial balance	1,272,634	1,272,634
Additions (b)	-	-
Final balance	1,272,634	1,272,634
Net, book value	1,956,171	1,978,012

Notes to the interim consolidated financial statements (continued)

- (b) As of June 30, 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 June 30, 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; and (ii) disbursements for implementation of software and licenses in new stores of InRetail Group.
- (d) Amortization expense for the six-month period ended June 30, 2020 and 2019 has been recorded in the following items of the combined statements:

	2020	2019
	S/(000)	S/(000)
Sales expenses, Note 17 (a)	25,997	17,628
Administrative expenses, Note 17 (a)	2,411	2,023
Cost of sales, Note 17 (a)	141	98
Balance as of June 30	28,549	19,749
Balance as of December 31, 2019		39,658

11. Trade payables

The table below presents the composition of this caption:

	As of June 30,	As of December 31,
	2020	2019
	S/(000)	S/(000)
Bills payable from purchase of goods	1,327,995	1,404,911
Bills payable from commercial services	121,780	126,922
Total	1,449,775	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 six-month period ended as of June 30, 2020 and December 31, 2019, is as follows:

	Buildings infrastructure and facilities	Vehicles	As of June 30, 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)	50,535	1,303	51,838	102,637
Disposals and/or sales (c)	(3,391)	(91)	(3,482)	(11,971)
Foreign currency translation	1,459	86	1,545	(436)
Final balance	962,062	3,245	965,307	915,406
Accumulated depreciation				
Initial balance	229,734	552	230,286	-
Additions (d), Note 17	115,286	449	115,735	231,415
Disposals and/or sales (c)	(3,128)	(52)	(3,180)	(1,104)
Foreign currency translation	560	31	591	(25)
Final balance	342,452	980	343,432	230,286
Net book value	619,610	2,265	621,875	685,120

Depreciation expense for the six-month period ended June 30, 2020 and 2019, was recorded as follows in the income statement:

	2020	2019
	S/(000)	S/(000)
Sales expenses, Note 17 (a)	111,195	99,097
Administrative expenses, Note 17 (a)	1,947	8,726
Cost of sales, Note 17 (a)	2,593	2,927
Balance as of June 30	115,735	110,750
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 June 30, 2020 and December 31, 2019, is as follows:

	As of June 30, 2020	As of December 31, 2019
	S(000)	S(000)
Initial balance	671,189	-
First adoption of IFRS 16	-	794,724
Additions	51,838	102,637
Increase for accrued interest, Note 19	22,989	51,887
Amortization	(128,560)	(254,208)
Disbursements made at the start of the contract	(568)	-
Disposal	(302)	(10,937)
Prepayment rents	(94)	(4,978)
Exchange rate	23,030	(7,551)
Foreign currency translation	1,001	(385)
Final balance	640,523	671,189
Current	187,410	218,620
Non-current	453,113	452,569
Final balance	640,523	671,189

Additionally, in the six-month period ended as of June 30, 2020 and 2019, interest related to the lease liability of S/22,989,000 and S/ 23,619,000, 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)	B\$(000)	2020	2019	2020	2019	2020	2019
				S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)		
Senior Notes Unsecured (b)													
Senior Notes Unsecured	PEN	6.438	2025	-	-	385,800	-	383,872	383,707	-	-	383,872	383,707
Senior Notes Unsecured	USD	5.375	2023	400,000	-	-	-	1,401,558	1,310,706	-	-	1,401,558	1,310,706
				400,000	-	385,800	-	1,785,430	1,694,413	-	-	1,785,430	1,694,413
Leasings													
Non related entities													
Banco de Crédito del Perú	PEN	5.500	2021	-	-	399	-	-	241	-	135	-	106
Banco Santander	PEN	7.650	2022	-	-	874	-	434	521	200	193	234	328
Banco Santander	PEN	6.920	2022	-	-	545	-	403	489	178	173	225	316
BBVA Banco Continental	PEN	4.950	2021	-	-	129	-	41	71	41	44	-	27
Banco Santander	PEN	8.550	2020	-	-	195	-	5	33	5	33	-	-
Banco de Crédito del Perú	PEN	7.560	2020	-	-	111	-	17	36	17	36	-	-
				-	-	2,253	-	900	1,391	441	614	459	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)	B\$(000)	2020	2019	2020	2019	2020	2019
								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	-	114,848	126,333	22,970	22,970	91,878	103,363
Non related entities													
Banco Scotiabank (c)	PEN	4.700	2025	-	-	161,950	-	114,866	126,353	22,973	22,973	91,893	103,380
Banco BBVA Colombia (e)	COP	6.700	2020	-	2,900,000	-	-	2,732	2,935	-	-	2,732	2,935
Banco BBVA Colombia (e)	COP	9.730	2020	-	600,000	-	-	565	-	565	-	-	-
Citibank (g)	USD	5.000	2022	10,000	-	-	-	29,508	33,170	11,803	11,056	17,705	22,114
Citibank (g)	USD	8.000	2020	1,000	-	-	-	3,541	-	3,541	-	-	-
Bolivariano	USD	8.000	2020	750	-	-	-	2,656	-	2,656	-	-	-
Banco Pichincha (f)	USD	8.950	2020	500	-	-	-	1,770	-	1,770	-	-	-
Banco Pichincha	USD	8.950	2020	500	-	-	-	-	1,659	-	1,659	-	-
Citibank Perú	PEN	2.300	2020	-	-	30,000	-	30,000	-	30,000	-	-	-
Citibank Perú	PEN	2.650	2020	-	-	10,000	-	10,000	-	10,000	-	-	-
Banco Scotiabank (c)	PEN	2.390	2020	-	-	39,000	-	39,000	-	39,000	-	-	-
Banco Scotiabank (c)	PEN	2.300	2020	-	-	7,000	-	7,000	-	7,000	-	-	-
Banco Scotiabank (c)	PEN	3.000	2020	-	-	8,000	-	-	8,000	-	8,000	-	-
Banco Scotiabank (c)	PEN	2.800	2020	-	-	7,000	-	-	7,000	-	7,000	-	-
Banco Scotiabank (c)	PEN	3.000	2020	-	-	31,000	-	-	31,000	-	31,000	-	-
Banco de Crédito del Perú	PEN	3.100	2020	-	-	15,000	-	-	15,000	-	15,000	-	-
Banco de Crédito del Perú	PEN	2.228	2020	-	-	15,000	-	15,000	-	15,000	-	-	-
Banco de Crédito del Perú	PEN	4.040	2020	-	-	30,000	-	30,000	-	30,000	-	-	-
Banco BBVA Continental (d)	PEN	4.810	2020	-	-	40,000	-	40,000	-	40,000	-	-	-
Banco de Crédito del Perú (j)	PEN	0.950	2023	-	-	10,000	-	10,000	-	411	-	9,589	-
Banco de Crédito de Bolivia S.A.	BOB	7.000	2021	-	-	-	3,480	1,770	-	1,770	-	-	-
Banco Nacional de Bolivia S.A.	BOB	3.730	2021	-	-	-	1,180	601	-	601	-	-	-
				12,750	3,500,000	565,900	4,660	453,857	351,450	240,060	119,658	213,797	231,792
Call Spread financing, Note 8													
Citibank N.A.	USD	6.473	2023	18,297	-	-	-	41,328	44,491	15,072	13,731	26,256	30,760
				18,297	-	-	-	41,328	44,491	15,072	13,731	26,256	30,760
Other obligations (i)													
Hewlett Packard S.A.	USD	2.930	2021	8,019	-	-	-	11,282	11,168	5,949	6,837	5,333	4,331
				8,019	-	-	-	11,282	11,168	5,949	6,837	5,333	4,331
Total				439,066	3,500,000	953,953	4,660	2,292,797	2,102,913	261,522	140,840	2,031,275	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/1,416,400,000 (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\$4,191,000 equivalent to approximately S/14,842,000 as of June 30, 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/1,928,000 as of June 30, 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 June 30, 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 five loans amounting to S/92,000,000 with maturity in September and October 2020. The annual accrued interest rate are between 2.300 and 3.000 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/812,000 as of June 30, 2020 (893,000 as of December 31, 2019).

As of June 30, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/46,272,000 (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 June 30, 2020, the company have financial obligations with BBVA for an amount of \$2,900,000 and \$600,000 under an annual fixed interest rate of 6.700 and 9.730 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 two loans amounting to US\$500,000 with maturity in September and November 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/830,000 as of June 30, 2020 (S/913,000 as of December 31, 2019).
- As of June 30, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/46,272,000 (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) In May 2020, the Company obtained a loan from the “Reactiva Perú” program with Banco de Crédito del Perú for the amount of S/10,000,000 with an interest rate of 0.95 percent per year, maturing in 2023, including a grace period (non-capitalized interest in the first year).
- (k) During the six-month period ended June 30, 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 June 30, 2020 and December 31, 2019, there are interests payable which are recorded in the “Other payables” caption of the consolidated statements of financial position.
- (l) 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 June 30, 2020 and December 31, 2019, standard clauses do not limit the normal operation of the InRetail Pharma Group and have been fulfilled.

(m) Financial obligations are payable as follows:

	2020	2019
	S/ (000)	S/ (000)
2020	221,549	140,840
2021	82,528	76,184
2022	78,927	71,160
2023	1,455,919	1,361,829
2024 onwards	453,874	452,900
Total	2,292,797	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 June 30, 2020 and December 31, 2019, as well as the consolidated income statements for the six-month period ended June 30, 2020 and 2019 are shown below:

Statements of financial position	As of June 30, 2020		As of December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
InRetail Pharma S.A.	26,283	-	-	5,143
Eckerd Amazonia S.A.C.	734	-	510	-
Boticas del Oriente S.A.C.	655	-	490	-
Química Suiza S.A.C.	-	44,332	-	39,108
Cifarma S.A.C.	723	-	715	-
Vanttive S.A.C.	86	-	28	-
Quicorp S.A.	1,492	-	248	-
Quifatex S.A.	5,839	-	5,400	-
Vanttive Cía Ltda.	99	-	73	-
Quimiza Ltda.	893	-	702	-
Química Suiza Colombia S.A.S. (formerly Quideca S.A.)	754	-	761	-
Mifarma S.A.C.	24,778	-	15,823	-
Albis S.A.C.	17,744	-	19,699	-
Jorsa de la Selva S.A.C.	1,309	-	1,760	-
Mifarma S.A. (formerly Empresa Comercializadora Mifarma S.A.)	79	-	84	-
Consolidation adjustment	-	195,442	-	196,511
Total	81,468	239,774	46,293	240,762

Statements of comprehensive income	Income tax for the six-month period ended June 30, 2020 and 2019	
	2020	2019
	S/(000)	S/(000)
Current	(78,909)	(73,249)
Deferred	23,421	14,384
Income tax expense	(55,488)	(58,865)

- (b) As of June 30, 2020 and December 31, 2019, the liability for income tax, net of the advanced tax, amount to approximately S/21,209,000 and S/21,907,000, respectively. Also, as of June 30, 2020 and December 31, 2019, the income tax credit amounts to approximately S/42,060,000 and S/31,955,000, respectively.

Notes to the interim consolidated financial statements (continued)

15. Equity

(a) Capital stock

As of June 30, 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.

(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 June 30, 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 April 30, 2020 it was approved, the dividend distribution of S/79,013,000 and S/60,349,000, respectively.

At the General Shareholders' Meeting on April 1, 2019, it was approved to distribute dividends of US\$30,000,000 equivalent approximately to S/99,630,000 which was distributed on May 6, 2019 and June 2, 2019.

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 June 30, 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 June 30, 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 2015 to 2018	From 2015 to 2018
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 2016 to 2019	From 2016 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 2013 to 2019	From 2013 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. (Bolivia)	From 2010 to 2019	From 2010 to 2020
Superfarma Mayoristas S.A.C.	From 2016 to 2019	From 2016 to 2019
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 June 30, 2020 and December 31, 2019.

- (f) As of June 30, 2020 and December 31, 2019, estimated losses from previous periods for Subsidiaries for tax purposes are the following:

	As of June 30, 2020	As of December 31, 2019
	S/(000)	S/(000)
Albis S.A.C.	45,557	55,494
Jorsa de la Selva S.A.C.	-	1,959
Quicorp S.A	3,292	841
Vanttive S.A.C.	-	<u>1</u>
Total	<u>48,849</u>	<u>58,295</u>

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 six-month period ended June 30, 2020 and 2019:

	2020 S/(000)	2019 S/(000)
Cost of sales	2,352,284	2,363,821
Selling expenses	632,816	635,749
Administrative expenses	119,875	124,187
Total	3,104,975	3,123,757

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

	2020			Total S/(000)
	Cost of sales S/(000)	Selling expenses S/(000)	Administrative expenses 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	2,407,682	-	-	2,407,682
Final balance of goods, Note 6 (a)	(1,095,122)	-	-	(1,095,122)
Final balance of raw materials, Note 6 (a)	(15,583)	-	-	(15,583)
Final balance of suppliers, Note 6 (a)	(564)	-	-	(564)
Final balance of finished goods, Note 6 (a)	(73)	-	-	(73)
Impairment of inventories Note 6 (c)	11,653	-	-	11,653
Factory overhead	13,295	-	-	13,295
Personnel expenses	-	294,286	86,871	381,157
Depreciation, Note 9 (d)	2,928	25,014	3,207	31,149
Depreciation of right-of-use asset, Note 12 (b)	2,593	111,195	1,947	115,735
Amortization, Note 10 (d)	141	25,997	2,411	28,549
Services provided by third parties (b)	-	119,473	15,730	135,203
Advertising	-	18,793	-	18,793
Packing and packaging	-	5,279	59	5,338
Rental of premises	-	10,553	316	10,869
Taxes	-	4,228	2,740	6,968
Provision for doubtful trade receivables, Note 5(e)	-	2,911	21	2,932
Recoveries of provision trade account receivables, Note 5(e)	-	(571)	-	(571)
Insurance	-	5,083	395	5,478
Other charges (c)	11,364	10,575	6,178	28,117
Total	2,352,284	632,816	119,875	3,104,975

Notes to the interim consolidated financial statements (continued)

	2019			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	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	2,352,272	-	-	2,352,272
Final balance of goods	(1,061,460)	-	-	(1,061,460)
Final balance of raw materials	(11,738)	-	-	(11,738)
Final balance of suppliers	(1,076)	-	-	(1,076)
Final balance of finished goods	(456)	-	-	(456)
Impairment of inventories, Note 6 (c)	10,509	-	-	10,509
Factory overhead	12,122	-	-	12,122
Personnel expenses	-	290,312	80,516	370,828
Depreciation, Note 9 (d)	2,112	29,956	3,816	35,884
Depreciation of right-of-use asset, Note 12 (b)	2,927	99,097	8,726	110,750
Amortization, Note 10 (d)	98	17,628	2,023	19,749
Services provided by third parties (b)	-	120,581	17,985	138,566
Advertising	-	26,607	-	26,607
Packing and packaging	-	7,075	58	7,133
Rental of premises	-	18,443	1,253	19,696
Taxes	-	4,477	4,806	9,283
Provision for doubtful trade receivables, Note 5(e)	-	3,286	8	3,294
Recovery of provision for doubtful, Note 5(e)	-	(575)	(3)	(578)
Insurance	-	5,741	478	6,219
Other charges (c)	22,213	13,121	4,521	39,855
Total	2,363,821	635,749	124,187	3,123,757

(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	2019
	S/(000)	S/(000)
Interest on loans, borrowings and bonds payable	59,980	57,354
Interest on loans with related parties	-	3,548
Interest on lease liability, Note 12 (c)	22,989	23,619
Accrual of structuring cost of financial obligation	2,602	2,612
Interest from derivative instruments "Call Spread"	1,433	1,733
Premium accrual of "Call Spread"	6,040	5,440
Other financial expenses	2,608	5,003
Total	95,652	99,309

(b) As of June 30, 2020 and December 31, 2019, there are interest payable for these obligations for approximately S/20,111,000 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 six-month period ended as of June 30, 2020 and 2019:

	2020 S/(000)	2019 S/(000)
Income		
Sales	16,964	18,251
Rendering of services	764	255
Others	1,935	1,367
Total	19,663	19,873
Expenses		
Renting of premises and land	6,612	6,517
Reimbursement of expenses	2,899	2,926
Other services	5,061	4,859
Interest	-	3,549
Others	-	1,700
Total	14,572	19,551

(b) As a result of the transactions with related companies, the InRetail Pharma Group recorded the following balances as of June 30, 2020 and December 31, 2019:

	As of June 30, 2020 S/(000)	As of December 31, 2019 S/(000)
Receivables		
Real Plaza S.R.L.	192	-
InRetail Consumer (e)	112,027	-
Supermercados Peruanos S.A. (d)	9,915	7,834
Homecenters Peruanos S.A. (d)	44	138
Homecenters Oriente S.A.C.	1	13
Financiera Oh! S.A.	564	767
Plaza Vea Oriente S.A.C. (d)	175	225
Others	203	-
Total	123,121	8,977

Notes to the interim consolidated financial statements (continued)

	As of June 30, 2020	As of December 31, 2019
	S/(000)	S/(000)
Payables		
Homecenters Peruanos S.A.	27	17
InRetail Perú Corp.	28	-
Plaza Vea Oriente S.A.C.	17	-
Financiera Oh! S.A.	893	685
Tiendas Peruanas S.A.	2	-
Centro Comercial Estación Central S.A.	-	16
Real Plaza S.R.L.	163	78
Patrimonio Interproperties Holding I e II	608	-
Inmobiliaria Puerta del Sol S.A.	78	-
Supermercados Peruanos S.A.	1,111	1,555
IR Management S.R.L.	645	668
InRetail Consumer	-	701
Centro comercial Estación Central S.A.	1	-
Other related	139	255
Total	3,712	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 June 30, 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 June 30, 2020.
- (e) In April and May 2020, the Company granted two loans to InRetail Consumer of S/91,000,000 and S/20,000,000, which accrue interest of 4.04 and 4.18 percent annually and maturing in March and May 2021, respectively.

As of June 30, 2020, accumulated interest receivable to InRetail Consumer of S/1,027,000 is maintained.

- (f) The compensation of key management personnel of the InRetail Pharma Group for the six-month period ended June 30, 2020 and 2019, is detailed below:

	2020	2019
	S/(000)	S/(000)
Short term employee benefits	16,341	11,642
Insurance and medical benefits	20	50
Employment benefits for contract termination	409	3,327
Total	16,770	15,019

Notes to the interim consolidated financial statements (continued)

- (g) As of June 30, 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 Peru – Interbank S.A.A.	106,252	338,159
Inteligo Bank Ltd.	126	976

20. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the six-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	180	15,839,379
Number as of June 30, 2019	15,839,379		15,839,379
Number as of January 1, 2020	15,839,379	180	15,839,379
Number as of June 30, 2020	15,839,379		15,839,379
	For the six-months-period ended June 30, 2020		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	110,803,000	15,839,379	6.995
	For the six-months-period ended June 30, 2019		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	130,904,000	15,839,379	8.264

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 June 30, 2020, the Company and its Subsidiaries agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/61,420,000, US\$5,373,000 and b\$401,000 (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 June 30, 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 years 2001, 2003, 2008, 2009, 2011, 2012, 2013, 2014 and 2015 for 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, the Peruvian Tax Authority made an assessment related to the income tax base for the 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, consider 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 June 30, 2020 and December 31, 2019, and for the six-month period ended June 30, 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 six-month period ended June 30, 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 six-month period ended June 30, 2020					
Revenue					
External income	2,503,473	878,853	3,382,326	-	3,382,326
Inter-segment	8,398	317,444	325,842	(325,842)	-
Total revenue	2,511,871	1,196,297	3,708,168	(325,842)	3,382,326
Cost of sales	(1,617,952)	(734,332)	(2,352,284)	-	(2,352,284)
Inter-segment	(7,871)	(310,335)	(318,206)	318,206	-
Gross profit	886,048	151,630	1,037,678	(7,636)	1,030,042
Selling expenses	(523,147)	(87,604)	(610,751)	(22,065)	(632,816)
Administrative expenses	(83,838)	(36,592)	(120,430)	555	(119,875)
Other operating income, net	2,655	624	3,279	-	3,279
Operating profit	281,718	28,058	309,776	(29,146)	280,630
Exchange difference, net	(26,091)	856	(25,235)	-	(25,235)
Financial income	9,404	3,666	13,070	(6,522)	6,548
Financial expenses	(92,486)	(9,860)	(102,346)	6,694	(95,652)
Profit before income tax	172,545	22,720	195,265	(28,974)	166,291
Income tax expense	(52,084)	(11,687)	(63,771)	8,283	(55,488)
Profit for the year	120,461	11,033	131,494	(20,691)	110,803
Attributable to:					
Owners of the parent	120,461	11,033	131,494	(20,691)	110,803
Non-controlling interests	-	-	-	-	-
Net profit	120,461	11,033	131,494	(20,691)	110,803

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 S/(000)	Consolidated S/(000)
For the six-month period ended June 30, 2019					
Revenue					
External income	2,468,824	923,507	3,392,331	-	3,392,331
Inter-segment	-	334,499	334,499	(334,499)	-
Total revenue	2,468,824	1,258,006	3,726,830	(334,499)	3,392,331
Cost of sales	(1,611,437)	(752,384)	(2,363,821)	-	(2,363,821)
Inter-segment	-	(329,707)	(329,707)	329,707	-
Gross profit	857,387	175,915	1,033,302	(4,792)	1,028,510
Selling expenses	(525,794)	(105,972)	(631,766)	(3,983)	(635,749)
Administrative expenses	(89,653)	(36,794)	(126,447)	2,260	(124,187)
Other operating income (expenses), net	148	969	1,117	1	1,118
Operating profit	242,088	34,118	276,206	(6,514)	269,692
Exchange difference, net	11,896	(712)	11,184	(12)	11,172
Financial income	111,574	51,625	163,199	(154,985)	8,214
Finance expenses	(97,934)	(11,913)	(109,847)	10,538	(99,309)
Profit before income tax	267,624	73,118	340,742	(150,973)	189,769
Income tax expense	(62,116)	(8,929)	(71,045)	12,180	(58,865)
Profit for the year	205,508	64,189	269,697	(138,793)	130,904
Attributable to:					
Owners of the parent	205,508	64,189	269,697	(138,793)	130,904
Non-controlling interests	-	-	-	-	-
Net profit	205,508	64,189	269,697	(138,793)	130,904

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

Geographic information-

As of June 30, 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 six-month period ended June 30, 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 June 30, 2020 the end of period exchange rates in the market for transactions in US Dollars were S/3.534 per US\$1.00 bid and S/3.541 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 June 30, 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\$)	0.282	0.302
Bolivian Peso (b\$)	1.966	2.029
Colombian Peso (\$)	1,061.539	990.246

Notes to the interim consolidated financial statements (continued)

As of June 30, 2020 and December 31, 2019, the InRetail Pharma Group held the following foreign currency assets and liabilities:

	As of June 30, 2020			As of December 31, 2019		
	US\$(000)	b\$(000)	\$(000)	US\$(000)	b\$(000)	\$(000)
Assets						
Cash and short-term deposits	13,019	12,043	2,270,818	11,769	6,669	679,864
Investments at fair value through equity	12,917	-	-	13,722	-	-
Trade receivables, net	62,399	49,808	6,478,142	51,762	45,088	9,833,962
Other accounts receivables, net	7,521	6,216	-	5,000	4,632	-
Accounts receivable from related parties	15	873	-	81	-	-
Total assets	95,871	68,940	8,748,960	82,334	56,389	10,513,826
Liabilities						
Trade payables	(60,902)	(28,135)	(4,749,467)	(61,703)	(28,498)	(5,484,008)
Other payables	(14,233)	(14,634)	-	(11,830)	(13,089)	-
Accounts payable to related parties	(63)	(874)	-	-	-	-
Lease liability	(98,529)	(4,438)	(258,609)	(110,102)	(2,506)	-
Interest - bearing loans and borrowings	(420,779)	(4,660)	(3,500,000)	(422,428)	-	(3,600,000)
Total Liabilities	(594,506)	(52,741)	(8,508,076)	(606,063)	(44,093)	(9,084,008)
Call Spread	400,000	-	-	400,000	-	-
Net (liability) assets position	(98,635)	16,199	240,884	(123,729)	12,296	1,429,818

As of June 30, 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 June 30, 2020 and December 31, 2019, protects it from exchange rate fluctuations between S/3.26 and S/3.75 as of June 30, 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. 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.