

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

Interim consolidated financial statements as of December 31, 2019, (non-audited) and December 31, 2018 (audited) and for the twelve-month periods ended December 31, 2019 and 2018

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Interim consolidated statements of financial position

As of December 31, 2019 (unaudited) and December 31, 2018 (audited)

	Note	2019 S/(000)	2018 S/(000)		Note	2019 S/(000)	2018 S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	5	589,253	475,136	Trade payables	12	1,531,833	1,657,244
Investments at fair value through profit or loss		-	1,000	Other payables		241,430	255,147
Investments at fair value through equity	8	45,435	-	Accounts payable to related parties	20(b)	3,975	3,342
Trade receivables, net	6	488,875	497,909	Interest-bearing loans and borrowings	14	140,840	210,181
Other receivables, net		37,525	38,218	Lease liability	13	218,620	-
Accounts receivables from related parties	20(b)	8,977	6,812	Current income tax	15(b)	21,907	10,665
Inventories, net	7	1,019,273	1,056,996	Total current liabilities		2,158,605	2,136,579
Taxes recoverable		51,205	113,836	Non-current liabilities			
Prepayments		5,676	20,640	Trade payables	12	-	10,733
Total current assets		2,246,219	2,210,547	Other payables		1,424	1,424
Non-current assets				Interest-bearing loans and borrowings	14	1,962,073	2,024,429
Other receivables, net		24,745	25,317	Lease liability	13	452,569	-
Investments at fair value through equity	8	-	36,338	Reserves for employee retirement pension funds		19,865	20,429
Prepayments		-	30,196	Deferred income tax liabilities, net	15(a)	240,762	263,709
Derivative financial instrument	9	63,508	86,694	Total non-current liabilities		2,676,693	2,320,724
Property, furniture and equipment, net	10	1,245,813	588,897	Total liabilities		4,835,298	4,457,303
Intangible assets, net	11	1,978,012	2,011,459	Equity			
Deferred income tax assets, net	15(a)	46,293	59,702	Capital stock	16(a)	15,840	15,840
Other assets		7,208	7,219	Capital premium	16(b)	482,835	482,835
Total non-current assets		3,365,579	2,845,822	Other reserves		2,449	2,449
Total assets		5,611,798	5,056,369	Unrealized results from derivative financial instruments		(3,373)	(12,356)
				Unrealized results from valuation of investment at fair value		8,692	2,237
				Unrealized results from actuarial reserve for retirement		477	180
				Unrealized results from foreign currency translation		(239)	6
				Retained earnings		269,819	107,875
				Total equity		776,500	599,066
				Total liabilities and equity		5,611,798	5,056,369

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

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

Interim consolidated Income statements

For the twelve-month periods ended December 31, 2019 and 2018

	Note	2019 S/(000)	2018 S/(000)
Net sales of goods		6,611,147	6,482,682
Rental income		70,576	63,067
Rendering of services		169,931	158,132
Revenue		6,851,654	6,703,881
Cost of sales	18	(4,722,550)	(4,769,117)
Gross profit		2,129,104	1,934,764
Selling expenses	18	(1,280,296)	(1,256,075)
Administrative expenses	18	(238,044)	(247,621)
Other operating income, net		6,337	(4,601)
Operating profit		617,101	426,467
Financial income		15,260	33,834
Financial expenses	19	(201,864)	(182,664)
Exchange difference, net		8,547	(32,976)
Profit before income tax		439,044	244,661
Income tax expense	15(a)	(144,399)	(90,069)
Net profit		294,645	154,592
Earnings per share:			
Basic and diluted profit for the period	21	18.602	10.155

All items above are related to continuing operations.

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

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

Interim consolidated statements of comprehensive income
For the twelve-month periods ended December 31, 2019 and 2018

	2019	2018
	S/(000)	S/(000)
Profit for the period	294,645	154,592
Other comprehensive income		
Unrealized gain on investments at fair value through equity	9,156	3,172
Transfer of realized gain on investments at fair value through equity to result of the period	-	(397)
Income tax effect	(2,701)	(818)
Total other comprehensive income from investments at fair value through equity	6,455	1,957
Unrealized gain (loss) from derivative financial instrument	12,742	(17,526)
Income tax effect	(3,759)	5,170
Total comprehensive income from derivative financial instruments	8,983	(12,356)
Unrealized gain from actuarial reserve for retirement	297	-
Total comprehensive income from actuarial reserve for retirement	297	-
Unrealized gain from foreign currency translation	(245)	6
Total comprehensive income from foreign currency translation	(245)	6
Other comprehensive income for the period, net of income tax effects	15,490	(10,393)
Total comprehensive income for the period	310,135	144,199

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

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

Interim consolidated statements of change in equity

For the twelve-month periods ended December 31, 2019 and 2018

	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, 2018	13,784	3,391	2,449	-	280	-	-	104,483	124,387
Profit for the period	-	-	-	-	-	-	-	154,592	154,592
Other comprehensive income	-	-	-	(12,356)	1,957	180	6	(180)	(10,393)
Total comprehensive income	-	-	-	(12,356)	1,957	180	6	154,412	144,199
Shares issued for merge of subsidiaries	2,056	479,444	-	-	-	-	-	-	481,500
Dividends	-	-	-	-	-	-	-	(151,020)	(151,020)
Balance as of December 31, 2018	15,840	482,835	2,449	(12,356)	2,237	180	6	107,875	599,066
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	-	-	-	-	-	-	-	-	294,645
Other comprehensive income	-	-	-	8,983	6,455	297	(245)	294,645	15,490
Total comprehensive income	-	-	-	8,983	6,455	297	(245)	294,645	310,135
Dividends	-	-	-	-	-	-	-	(138,130)	(138,130)
Balance as of December 31, 2019	15,840	482,835	2,449	(3,373)	8,692	477	(239)	269,819	776,500

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

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

Interim consolidated statements of cash flows

For the twelve-month periods ended December 31, 2019 and 2018

	Note	2019 S/(000)	2018 S/(000)
Operating activities			
Revenue		6,834,599	6,801,377
Payment of goods and services to suppliers		(5,207,226)	(5,351,888)
Payment of salaries and social benefits to employees		(744,920)	(761,820)
Taxes paid		(106,912)	(95,851)
Recovery of taxes		19,319	-
Other payments, net		(2,257)	(4,754)
Net cash flows from operating activities		792,603	587,064
Investing activities			
Collection of loans granted to related parties	20	115,385	1,053,902
Collection of interest on loans granted to related parties		1,470	9,494
Sales of investments at fair value through equity		29,367	47,710
Rescue of investments at fair value through profit or loss		11,000	-
Purchase of subsidiary		-	(1,864,344)
Purchase of investments at fair value through equity		(29,724)	(33,165)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts		(42,453)	(28,516)
Purchase of investments at fair value through profit and loss		(10,000)	-
Loans granted to related parties	20	(115,385)	(1,033,620)
Purchase and development of intangible assets		(6,157)	(27,658)
Net cash flows used in investing activities		(46,497)	(1,876,197)
Financing activities			
Proceeds from interest-bearing loans and borrowings, net of structuring cost		320,695	3,943,582
Proceeds from bond insurances		-	1,660,580
Capital contribution of non-controlling interest		-	481,500
Payment of interest-bearing loans and borrowings		(435,814)	(4,111,487)
Payment of lease liability	13	(202,321)	-
Interest payment of lease liability	13	(51,887)	-
Payment of dividends		(138,130)	(151,020)
Interest paid		(124,532)	(103,191)
Net cash flows (used in) from financing activities		(631,989)	1,719,964
Net increase of cash and short-term deposits		114,117	430,831
Cash and short-term deposits at the beginning of the period		475,136	44,305
Cash and short-term deposits at the end of the period		589,253	475,136
Non-cash transactions			
Fixed assets purchased through leasing and other financial obligations		4,743	8,962
Fixed assets from the acquisition in a subsidiary		-	57,659
Contract of hedge instrument "Call Spread"		-	70,353
Intangible assets from the acquisition in a subsidiary		-	687,287
Initial recorded of right-of-use asset		829,927	-
Additions of the period of right-of-use asset		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. (formerly Eckerd Perú S.A.) and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of December 31, 2019 and December 31, 2018 and for the twelve month period ended December 31, 2019 and 2018

1. Business activity

InRetail Pharma S.A. (formerly Eckerd Perú S.A. and, hereinafter “the Company”), was incorporated on August 2, 1996. As of December 31, 2019 and December 31, 2018, 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.

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.

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

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

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

The accompanying interim consolidated financial statements as of December 31, 2019 and 2018 were approved by the Board of Directors on February 27, 2020.

2. Quicorp Group acquisition

In December 2017, the Company (as the Parent Company) incorporated IR Pharma S.A.C., for the acquisition of 100 percent of Quicorp S.A. and its Subsidiaries (hereinafter and jointly, “Quicorp”): Química Suiza Comercial S.A.C., Química Suiza S.A.C., Cifarma S.A.C., Mifarma S.A.C., Empresa Comercializadora Mifarma S.A., Botica Torres de Limatambo S.A.C., Vantitive S.A.C., Farmacias Peruanas S.A.C., Drogueria La Victoria S.A.C., Vanttive Cía Ltda., Quifatex S.A., Quimiza Ltda, Quideca S.A., Albis S.A.C., Jorsa de la Selva S.A.C. and Superfarma Mayorista S.A.C. These entities operate in the manufacturing, distribution and retail segments within the pharmaceutical sector in Peru, Ecuador, Bolivia and Colombia.

Notes to the interim consolidated financial statements (continued)

The purchase price for the acquisition of Quicorp was approximately US\$591,351,000 equivalent to S/1,898,255,000, which was partially funded with a US\$1,000,000,000 bridge loan at one-year maturity, and at Libor 1 month plus a spread interest rate. Such bridge loan was obtained by InRetail Pharma S.A. (formerly Eckerd Perú S.A.) from Citibank N.A. and JP Morgan Chase Bank N.A. Likewise, such bridge loan has been partially used for the aforementioned acquisition and, the difference, mainly for the restructuring of several debts obtained by related parties. During the second quarter of 2018 this loan was paid in full.

The acquisition of Quicorp Group was accounted in accordance with IFRS 3 "Business Combination", by applying the purchase accounting method; as a result, the assets and liabilities acquired including certain intangibles assets not recorded by acquired companies were recorded at the fair value on the date of their acquisition.

Below are the net book value and the adjustment at fair value of the identifiable assets and liabilities of the acquired entity at the acquisition date:

	Fair value reconized on acquisition
	S/(000)
Net book value of the assets acquired	408,205
Value assigned to brands	449,014
Other acquired intangibles	251,100
Increase in inventory for fair value adjustment	23,136
Increase in property, plant and equipment for fair value adjustment	57,659
Increase in debt for fair value adjustment	(4,799)
Re-allocation of goodwill, brands and other assets net of previous acquisitions	(337,359)
Deferred income tax	(221,335)
Total indentifiable net assets at fair value	625,621
Goodwill from acquisition, see Note 11 (a)	1,272,634
Purchase consideration transferred	1,898,255

Notes to the interim consolidated financial statements (continued)

3. Subsidiary activities

The Company and its Subsidiaries (hereinafter the "InRetail Pharma Group") are dedicated to the commercialization, manufacturing, distribution and marketing, 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 2,077 stores as of December 31, 2019 (2,063 stores as of December 31, 2018) 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) IR Pharma S.A.C. (formerly Chakana Salud S.A.C.), was incorporated in December 2017 only for the acquisition of 100 percent of Quicorp Group. In April 2018, IR Pharma S.A.C. was merged with InRetail Pharma S.A.
- (d) Quicorp S.A. is a Holding incorporated in Peru in September 2010, and maintains 100 per cent of the assets of Química Suiza Comercial S.A.C. which in turn maintains 100 percent of the equity of the following Companies:
 - i. Química Suiza S.A.C.
It was incorporated in Peru on March 6, 1939 and its 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.

At the General Shareholders' Meeting on July 12, 2018, the merger of Quicorp S.A. with Química Suiza Comercial S.A.C. was approved.

On May 1, 2019, an equity block was split, constituted of the shares that the Company held until that moment in Mifarma S.A.C. and Cifarma S.A.C. with the consequent reduction of capital of Química Suiza S.A.C by the same amount.

Notes to the interim consolidated financial statements (continued)

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.

On April 30, 2013, Mifarma S.A.C. acquired 98% of shares of Empresa Comercializadora Mifarma S.A. becoming a Subsidiary of Mifarma S.A.C.

At the General Shareholders' Meeting held on March 15, 2018, the merger of the Company with Farmacias Peruanas S.A.C. was agreed, in which Mifarma would act as the acquiring company, therefore Farmacias Peruanas S.A.C. 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.

At the General Shareholders' Meeting held on July 31, 2018, the merger of Mifarma S.A.C. with Droguería la Victoria S.A.C. and Boticas Torres de Limatambo S.A.C. was approved.

iv. Empresa Comercializadora Mifarma S.A.

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

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

Notes to the interim consolidated financial statements (continued)

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

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

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

Botica Torres de Limatambo S.A.C. is dedicated to the commercialization of pharmaceutical, toilet, personal hygiene and bazaar products in general.

At the General Shareholders' Meeting held on July 31, 2018, the merger of Mifarma S.A.C. with Boticas Torres de Limatambo S.A.C. was approved.

vi. 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 December 31, 2019 and December 31, 2018. 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.

vii. Farmacias Peruanas S.A.C.

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

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

Notes to the interim consolidated financial statements (continued)

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

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

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

viii. Droguería la Victoria S.A.C.

It was incorporated on August 17, 1998 and the registered office is located at Av. Republica de Panamá N° 2577, La Victoria, Lima.

It is dedicated to the import and distribution of dietary and natural pharmaceutical products as well as toilet, perfumery, beauty and other related products.

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

At the General Shareholders' Meeting held on July 31, 2018, the merger of Mifarma S.A.C. with Droguería la Victoria S.A.C. was approved.

ix. 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 Superintendencia 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.

x. 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 Superintendencia of Corporations in the Republic of Ecuador.

It is dedicated to the import, export, commercialization, distribution, and intermediation of specialized pharmaceutical products.

Notes to the interim consolidated financial statements (continued)

- xi. **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.
- xii. **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.
- xiii. **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.
- xiv. **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 registered office is located at Av. Elías Aguirre 1107, Loreto, Perú.
- xv. **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)

4. Basis of preparation and presentation

(a) Interim financial statements

The consolidated financial statements of the InRetail Pharma Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB), effective as of December 31, 2019 and December 31, 2018, 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, 2018.

(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, 2018, except for the adoption of the new standards and interpretations as of January 1, 2019.

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) IFRS 9 “Financial Instruments” -

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

The Company and its Subsidiaries adopted the new standard on the required effective date and will not restate comparative information. During 2017, the Company and its Subsidiaries have performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available in 2018 when the Company and its Subsidiaries will adopt IFRS 9.

Overall, the Company and its Subsidiaries have not had a significant impact on its consolidated statement of financial position and net equity.

(ii) IFRS 15 Revenue from Contracts with Customers -

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS, such as IAS 18 “Revenues” and IAS 11 “Construction Contracts”. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company and its Subsidiaries adopted the new standard on the required effective date using the modified retrospective method. During 2017, the Company and its Subsidiaries implemented this standard and haven’t had a significant impact on their financial statements except for some reclassifications.

Notes to the interim consolidated financial statements (continued)

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

(a) Sale of goods -

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

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

(b) Presentation and disclosure requirements -

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

(c) Other adjustments -

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

Notes to the interim consolidated financial statements (continued)

(iii) IFRS 16 "Leases" –

IFRS 16 deals with the identification of leases, as well as its accounting treatment for tenants and landlords. Under this IFRS, operating leases are recognized on the Statement of Financial Position, increasing assets and liabilities, as if they were leveraged asset acquisitions.

Earlier application is permitted provided that it also applies IFRS 15 "Revenue from contracts with customers", and is effective for fiscal years beginning since January 1, 2019.

As of the date of the consolidated financial statements, the implementation of this standard in the InRetail Pharma Group has increased the assets in S/829,927,000, new right-of-use assets have been added for S/102,637,000 and have been disposal by modification of contracts of right of use of S/10,867,000, generated a higher depreciation expense of S/236,166,000 a lower asset from foreign currency translation of S/411,000, presenting a balance of right-of-use asset of S/685,120,000. As well as a higher financial expense of S/51,887,000.

As of the date of the consolidated financial statements, the implementation of this standard, has also increased the lease liability in S/829,927,000, new obligations have been incorporated for S/102,637,000, obligations have been written off for S/10,937,000, it has been amortized by S/202,321,000, has decreased by: (i) exchange difference S/7,551,000 (ii) foreign currency translation S/385,000 and (iii) disbursement before IFRS 16 adoption S/40,1818,000, generating an ending balance as of December 31, 2019 of S/671,189,000.

Likewise, the cost and sale expenses of rental income presents a decrease of S/254,208,000.

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

- IFRS 17 "Insurance Contracts", effective for annual periods beginning on 1 January 2021.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration", effective for annual periods beginning on 1 January 2018.
- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment", effective for annual periods beginning on 1 January 2019.
- Annual Improvements 2014-2016 Cycle (issued in December 2016), effective for annual periods beginning on 1 January 2018.
- Annual Improvements 2015-2017 Cycle, effective for annual periods beginning on 1 January 2019.
- Amendments to IAS 28 Investments in Associates and Joint Ventures, effective for annual periods beginning on 1 January 2019.
- Amendments to IAS 40 - Transfers of Investment Property, effective for annual periods beginning on 1 January 2018.
- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2, effective for annual periods beginning on 1 January 2018.
- Amendments to IFRS 4 - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts", effective for annual periods beginning on 1 January 2018.

Notes to the interim consolidated financial statements (continued)

- Amendments to IFRS 9, effective for annual periods beginning on 1 January 2019.
- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (deferred indefinitely).
- Amendments to IFRS 15 – Clarification, effective for annual periods beginning on 1 January 2018.

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

5. Cash and short-term deposits

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

	As of December 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Cash (b)	5,468	5,285
Current accounts (c)	545,966	375,139
Time deposits (d)	6,480	50,203
Cash in transit	31,339	44,509
Total	589,253	475,136

- (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 December 31, 2019, 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 4.37 percent in local currency (between 2.95 and 4.30 percent in Soles as of December 31, 2018).

Notes to the interim consolidated financial statements (continued)

6. Trade receivables, net

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

	As of December 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Trade accounts receivable (b)	528,286	535,140
Credit card operators (d)	5,323	7,841
Others	-	447
Total	533,609	543,428
Provision for doubtful accounts (e)	(44,734)	(45,519)
Total	488,875	497,909

(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.

(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 twelve-months period ended December 31, 2019 and 2018, were as follows:

	2019 S/(000)	2018 S/(000)
Balance at the beginning of the period	45,519	57
Subsidiary acquisition	-	48,358
Provision recognized as expense, Note 18 (a)	5,168	6,130
Recoveries, Note 18 (a)	(964)	(3,295)
Write-offs	(4,918)	(6,364)
Foreign currency translation	14	713
Others	(85)	(80)
Balance at the end of the period	44,734	45,519

As of December 31, 2019 and December 31, 2018, the amount of overdue account receivables but not impaired amounted to approximately S/66,940,000 and S/80,401,000, respectively.

In the opinion of Management of the InRetail Pharma Group, the provision for doubtful accounts receivables as of December 31, 2019 and December 31, 2018, appropriately covers the credit risk of this item at those dates.

Notes to the interim consolidated financial statements (continued)

7. Inventories, net

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

	As of December 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Goods, Note 18 (a)	997,569	1,022,755
In transit inventories (b)	15,624	28,927
Raw material, Note 18 (a)	15,204	11,796
Miscellaneous supplies	2,204	2,534
Miscellaneous supplies for manufacturing, Note 18 (a)	1,008	1,075
Finished goods, Note 18 (a)	189	672
Total	1,031,798	1,067,759
Minus		
Provision for impairment of inventories (c)	(12,525)	(10,763)
Total	1,019,273	1,056,996

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

(c) The movement in the provision for inventory impairment for the twelve-months period ended December 31, 2019 and 2018, were as follows:

	2019	2018
	S/(000)	S/(000)
Balance at the beginning of the period	10,763	6,470
Subsidiary acquisition	-	10,095
Provision of the period, Note 18 (a)	7,211	6,508
Recovery	(122)	(1,930)
Write-off	(5,288)	(10,541)
Foreign currency translation	(39)	161
Balance at the end of the period	12,525	10,763

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.

Notes to the interim consolidated financial statements (continued)

8. Investment at fair value through equity

In June 2019, the Company acquired financial investments corresponding to bonds issued by Intercorp Perú Ltd., for an amount of US\$8,784,000 equivalent to S/29,724,000 with maturity in the year 2025, and accrues an annual effective interest of 5.875 percent. On August 2019, the Company sold all of these investments for an amount of S/29,367,000 that is presented in the consolidated statement of cash flow

As of December 31, 2019, the Company has other investments at fair value through equity for an amount of US\$13,722,000 equivalent to S/45,435,000 (US\$10,787,000 equivalent to S/36,338,000 as of December 31, 2018).

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

As of December 31, 2019 and December 31, 2018, the unrealized result net of deferred tax is S/8,692,000 and S/2,237,000 respectively and is presented in the consolidated statement of changes in equity.

9. Derivative financial instrument

As of December 31, 2019 and December 31, 2018, 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 2019	Fair value 2018
	US\$(000)		%	S/(000)	S/(000)	S/(000)
Citibank N.A.	400,000	May-23	1.27	1,326,800	63,508	86,694
Total					63,508	86,694

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. Between the contract date of the Call Spread and the date of issue of the bond, this contract was recorded as a negotiation instrument. 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 14 (b).

As of December 31, 2019 and December 31 2018, 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)

10. Property, furniture and equipment, net

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

	Right-of-use asset	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)	S/(000)
Cost									
Initial balance	-	257,346	349,237	132,267	2,085	351,549	5,560	1,098,044	406,707
Subsidiary acquisition	-	-	-	-	-	-	-	-	729,807
First adoption of IFRS 16	829,927	-	-	-	-	-	-	829,927	-
Additions (b)	102,637	-	9,882	6,478	-	18,097	12,739	149,833	37,478
Sales (c)	-	-	(149)	(2,164)	(620)	(11,230)	-	(14,163)	(68,639)
Disposal (c)	(11,971)	-	(4,828)	(1,615)	(20)	(13,313)	(186)	(31,933)	(9,440)
Transfer	-	-	5,226	662	-	2,205	(8,093)	-	-
Transfer to intangible assets, Note 11(a)	-	-	-	-	-	-	(654)	(654)	-
Foreign currency translation	(436)	-	(72)	(164)	(2)	(764)	(4)	(1,442)	2,134
Final balance	920,157	257,346	359,296	135,464	1,443	346,544	9,362	2,029,612	1,098,047
Accumulated depreciation									
Initial balance	-	-	174,445	90,022	1,365	243,315	-	509,147	197,350
Subsidiary acquisition	-	-	-	-	-	-	-	-	300,518
Additions (d)	236,166	-	30,234	9,516	239	32,082	-	308,237	71,162
Sales (c)	-	-	(141)	(1,901)	(485)	(11,015)	-	(13,542)	(5,314)
Disposals(c)	(1,104)	-	(3,629)	(1,349)	(20)	(13,000)	-	(19,102)	(56,170)
Transfer	-	-	-	(294)	-	294	-	-	-
Foreign currency translation	(25)	-	(164)	(149)	(3)	(600)	-	(941)	1,604
Final balance	235,037	-	200,745	95,845	1,096	251,076	-	783,799	509,150
Net book value	685,120	257,346	158,551	39,619	347	95,468	9,362	1,245,813	588,897

(b) Additions for the twelve-months period ended December 31, 2019 and December 31, 2018, 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 twelve-months period ended December 31, 2019 and 2018, was recorded as follows in the income statement:

	2019	2018
	S/(000)	S/(000)
Sales expenses, Note 18 (a)	284,596	58,998
Administrative expenses, Note 18 (a)	14,056	8,238
Cost of sales, Note 18 (a)	9,585	3,926
Balance as of December 31	308,237	71,162

- (e) As of December 31, 2019, the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/105,823,000 and S/67,575,000, respectively (S/129,466,000 and S/72,876,000, as of December 31, 2018).
- (f) The InRetail Pharma Group maintains insurance policies on their main assets in accordance with the policies established by Management.

11. Intangible assets, net

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

	As of December 31,	As of December 31,
	2019	2018
	S/(000)	S/(000)
Cost		
Initial balance	850,430	53,087
Subsidiary acquisition	-	783,306
Additions (c)	6,157	27,658
Disposal and/or sales	(2,512)	(13,811)
Transfer from property, plant and equipment, Note 10 (a)	654	-
Foreign currency translation	(93)	190
Final balance	854,636	850,430
Accumulated amortization		
Initial balance	111,605	25,780
Subsidiary acquisition	-	61,780
Additions (d)	39,654	37,333
Disposals and/or sales	(1,940)	(13,437)
Foreign currency translation	(61)	149
Final Balance	149,258	111,605
Goodwill		
Initial balance	1,272,634	-
Additions (b)	-	1,272,634
Final balance	1,272,634	1,272,634
Net, book value	1,978,012	2,011,459

Notes to the interim consolidated financial statements (continued)

- (b) As of December 31, 2019 and December 31, 2018, 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 2.
- (c) As of December 31, 2019 and December 31, 2018, 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 2.
- (d) Amortization expense for the twelve-months period ended December 31, 2019 and 2018 has been recorded in the following items of the combined statements:

	2019	2018
	S/(000)	S/(000)
Sales expenses, Note 18 (a)	35,365	33,373
Administrative expenses, Note 18 (a)	4,220	3,836
Cost of sales, Note 18 (a)	69	124
Balance as of December 31	39,654	37,333

12. Trade payables

The table below presents the composition of this caption:

	As of December 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Bills payable from purchase of goods	1,404,911	1,427,218
Bills payable from commercial services	126,922	240,759
Total	1,531,833	1,667,977
By Due:		
Current	1,531,833	1,657,244
Non-current	-	10,733
	1,531,833	1,667,977

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)

13. Lease liability

On January 1, 2019, IFRS 16 "Leases" entered into force, requiring the presentation of an asset for right-of-use and a financial liability that reflects the future payments brought to the present value of the leases.

The movement of this caption for the twelve-months period ended as of December 31, 2019 is as follows:

	As of December 31, 2019
	S(000)
Initial balance	-
First adoption of IFRS 16	829,927
Additions	102,637
Amortization	(202,321)
Disposal	(10,937)
Disbursement before IFRS 16 adoption	(40,181)
Exchange rate	(7,551)
Foreing currency translation	(385)
Final balance	671,189
Current	218,620
Non-current	452,569
Final balance	671,189

Additionally, in the twelve-months period ended as of December 31, 2019, interest related to the lease liability was S/51,887,000, 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)

14. 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)	2019 S/(000)	2018 S/(000)	2019 S/(000)	2018 S/(000)	2019 S/(000)	2018 S/(000)
Senior Notes Unsecured (b)												
Senior Notes Unsecured	PEN	6.438	2025	-	-	385,800	383,707	383,390	-	-	383,707	383,390
Senior Notes Unsecured	USD	5.375	2023	400,000	-	-	1,310,706	1,330,899	-	-	1,310,706	1,330,899
				<u>400,000</u>	<u>-</u>	<u>385,800</u>	<u>1,694,413</u>	<u>1,714,289</u>	<u>-</u>	<u>-</u>	<u>1,694,413</u>	<u>1,714,289</u>
Leasings												
Related entities												
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	-	27,412	-	4,219	-	4,219	-	-
Non related entities												
BBVA Banco Continental	PEN	Between 5.900 and 6.900	2019	-	-	1,717	-	69	-	69	-	-
Banco Santander del Perú	PEN	7.650	2022	-	-	874	521	686	193	165	328	521
Banco de Crédito del Perú	PEN	5.500	2021	-	-	399	240	370	134	130	106	240
Banco Scotiabank	PEN	7.550	2019	-	-	12,528	-	114	-	114	-	-
Banco Santander del Perú	PEN	6.920	2022	-	-	545	490	-	174	-	316	-
Banco de Crédito del Perú	PEN	7.560	2020	-	-	111	36	75	36	37	-	38
BBVA Banco Continental	PEN	Between 4.950 and 7.500	2021	-	-	887	71	323	44	259	27	64
Banco Santander del Perú	PEN	Between 8.330 and 8.550	2020	-	-	1,328	33	162	33	123	-	39
				<u>-</u>	<u>-</u>	<u>45,801</u>	<u>1,391</u>	<u>6,018</u>	<u>614</u>	<u>5,116</u>	<u>777</u>	<u>902</u>

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)	2019	2018	2019	2018	2019	2018	
							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	126,333	149,302	22,970	26,824	103,363	122,478	
Non related entities													
BBVA Banco Continental	PEN	4.110	2019	-	-	17,000	-	17,000	-	17,000	-	-	
Banco de Crédito del Perú	PEN	3.100	2019	-	-	15,000	-	15,000	-	15,000	-	-	
Banco Scotiabank	PEN	Between 3.900 and 4.000	2019	-	-	29,000	-	29,000	-	29,000	-	-	
Banco Scotiabank (c)	PEN	Between 2.800 and 3.000	2020	-	-	46,000	46,000	-	46,000	-	-	-	
BBVA Banco Continental (d)	PEN	3.990	2020	-	-	15,000	15,000	-	15,000	-	-	-	
Banco de Crédito del Perú	PEN	4.890	2019	-	-	400	-	400	-	400	-	-	
BBVA Banco Continental	PEN	Between 3.970 and 4.290	2019	-	-	3,000	-	3,000	-	3,000	-	-	
Banco Bolivariano	USD	Between 7.910 and 8.900	2020	6,000	-	-	-	16,050	-	11,826	-	4,224	
Banco Guayaquil	USD	8.260	2019	5,000	-	-	-	7,172	-	7,172	-	-	
Banco Guayaquil	USD	7.930	2019	1,000	-	-	-	585	-	585	-	-	
Banco Internacional	USD	Between 8.500 and 9.120	2019	3,500	-	-	-	11,827	-	11,827	-	-	
Banco Pacífico	USD	8.030	2019	1,000	-	-	-	1,781	-	1,146	-	635	
Banco Pichincha	USD	8.950	2019	3,500	-	-	-	11,827	-	11,827	-	-	
Banco Pichincha	USD	Between 7.950 and 8.950	2019	4,000	-	-	-	13,516	-	13,516	-	-	
Produbanco	USD	8.230	2019	5,000	-	-	-	11,441	-	3,315	-	8,126	
CitiBank (g)	USD	5.000	2022	10,000	-	-	33,170	-	11,056	-	22,114	-	
Banco Pichincha	USD	7.950	2019	300	-	-	-	1,014	-	1,014	-	-	
Banco Pichincha	USD	8.950	2019	200	-	-	-	676	-	676	-	-	
Banco Pichincha (f)	USD	8.950	2020	300	-	-	995	-	995	-	-	-	
Banco Pichincha (f)	USD	8.950	2020	200	-	-	664	-	664	-	-	-	
BBVA Colombia (e)	COP	6.700	2020	-	3,600,000	-	2,935	3,015	-	3,015	2,935	-	
Banco Scotiabank - préstamo (c)	PEN	4.700	2025	-	-	161,950	126,353	149,326	22,973	26,828	103,380	122,498	
				40,000	3,600,000	449,300	351,450	441,932	119,658	183,971	231,792	257,961	
Call Spread financing, Note 9													
Citibank N.A.	USD	6.473	2023	18,297	-	-	44,491	56,532	13,731	13,156	30,760	43,376	
				18,297	-	-	44,491	56,532	13,731	13,156	30,760	43,376	
Other obligations (i)													
IBM Perú S.A.C.	USD	2.170	2019	335	-	-	-	37	-	37	-	-	
Hewlett Packard S.A.	USD	2.930	2024	12,084	-	-	11,168	15,802	6,837	7,901	4,331	7,901	
				12,419	-	-	11,168	15,839	6,837	7,938	4,331	7,901	
Total				470,716	3,600,000	880,901	2,102,913	2,234,610	140,840	210,181	1,962,073	2,024,429	

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/1,326,800,000 (equivalent to S/1,351,600,000 as of December 31, 2018) 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\$4,852,000 equivalent to approximately S/16,094,000 as of December 31, 2019 (US\$6,144,000 equivalent to approximately S/20,701,000 as of December 31, 2018).

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/2,093,000 as of December 31, 2019 (S/2,410,000 as of December 31, 2018).

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 December 31, 2019 and December 31, 2018. 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/46,000,000 with maturity in January, February and March 2020. The annual accrued interest rate is between 2.800 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/893,000.

As of December 31, 2019, InRetail Pharma S.A. amortized the debt for the amount of S/34,704,000.

- (d) BBVA Continental
Química Suiza S.A.C.
It corresponds to a loan amounting to S/15,000,000 with maturity in March 2020. The annual accrued interest rate is 3.990 percent annual.

- (e) BBVA Colombia
Quideca S.A.
As of December 31, 2019, the company had financial obligations with BBVA for an amount of \$3,600,000 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 two loans amounting to US\$500,000 with maturity in March and May 2020. The annual accrued interest rate is 8.950 percent annual.
- (g) Citibank
Quifatex S.A.
It corresponds to one loan amounting to US\$10,000,000 with maturity in October 2022 and accrued interest rate of 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/913,000.
- As of December 31, 2019, InRetail Pharma S.A. amortized the debt for the amount of S/34,704,000.
- (i) Corresponds to the debt acquired with IBM del Perú S.A.C. and Hewlett Packard S.A., for the purchase and leasing of computer equipment. These contracts do not have specific guarantees.
- (j) During the twelve-months period ended December 31, 2019 and 2018, loans and borrowings accrued interests which are recorded in the "Financial expenses" caption of the consolidated income statement, see Note 19. Also, as of December 31, 2019 and December 31, 2018, 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 December 31, 2019 and December 31, 2018, standard clauses do not limit the normal operation of the InRetail Pharma Group and have been fulfilled.

- (l) Financial obligations are payable as follows:

	2019	2018
	S/ (000)	S/ (000)
2019	-	210,181
2020	140,840	62,802
2021	76,176	65,467
2022	71,168	59,925
2023 onwards	1,814,729	1,836,235
Total	2,102,913	2,234,610

Notes to the interim consolidated financial statements (continued)

15. Income tax

- (a) The amounts presented in the statement of financial position as of December 31, 2019 and December 31, 2018, as well as the consolidated income statements for the twelve-months period ended December 31, 2019 and 2018 are shown below:

Statements of financial position	As of December 31, 2019		As of December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	-	5,143	-	10,508
Eckerd Amazonia S.A.C.	510	-	1,207	-
Boticas del Oriente S.A.C.	490	-	1,116	-
Química Suiza S.A.C.	-	39,108	-	43,312
Cifarma S.A.C.	715	-	-	36
Vanttive S.A.C.	28	-	249	-
Quicorp S.A.	248	-	-	-
Quifatex S.A.	5,400	-	4,170	-
Vanttive Cia Ltda.	73	-	37	-
Quimiza Ltda.	702	-	747	-
Quideca S.A.	761	-	613	-
Mifarma S.A.C.	15,823	-	19,069	-
Albis S.A.C.	19,699	-	30,132	-
Jorsa de la Selva S.A.C.	1,760	-	2,300	-
Empresa Comercializadora Mifarma Bolivia S.A.	84	-	62	-
Consolidation adjustment	-	196,511	-	209,853
Total	46,293	240,762	59,702	263,709

Statements of comprehensive income	Income tax for the twelve-months period ended December 31, 2019 and 2018	
	2019	2018
	S/(000)	S/(000)
Current	(162,776)	(73,670)
Deferred	18,377	(16,399)
Income tax expense	(144,399)	(90,069)

- (b) As of December 31, 2019 and December 31, 2018, the liability for income tax, net of the advanced tax, amount to approximately S/21,907,000 and S/10,665,000, respectively. Also, as of December 31, 2019 and December 31, 2018, the income tax credit amounts to approximately S/31,955,000 and S/96,691,000, respectively.

16. Equity

- (a) Capital stock –
As of December 31, 2019 and December 31, 2018, 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. (formerly Chakana Salud 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 December 31, 2019 and December 31, 2018, 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' Meeting of InRetail Pharma S.A. held on October 1, 2019, was approved, the dividend distribution of S/38,500,000.

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.

At the General Shareholders' Meeting on April 1, 2018, it was approved to distribute dividends of S/151,020,000 which was distributed on second quarter, 2018.

17. 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 December 31, 2019 and December 31, 2018, the income tax rate was:

Country	%
Perú	29.5
Ecuador	28.0
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 29757, established Peruvian source income as that obtained by the indirect sales of shares representing the capital stock of companies domiciled in the country.

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

- (i) In first place, 10 percent or more of shares of the non domiciliated company must be sold in a period of twelve months.
- (ii) In second place, the market value of the Peruvian company's shares must represent 50 percent or more of the market value of the non domiciliated company, in a period of twelve months.

(d) For purposes of determining the Income Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. Based on the analysis of the operations of the InRetail Pharma Group, Management and its legal advisors consider that as consequence of the application of the regulation in force, there will not be any significant contingencies for the InRetail Pharma Group as of December 31, 2019 and December 31, 2018.

(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. (formerly Eckerd Perú S.A.)	From 2015 to 2019	From 2016 to 2019
Eckerd Amazonía S.A.C.	From 2014 to 2019	From 2015 to 2019
Boticas del Oriente S.A.C.	From 2014 to 2019	From 2013 to 2019
Química Suiza Comercial S.A.C.	From 2014 to 2018	From 2014 to 2018
Quicorp S.A.	From 2014 to 2019	From 2014 to 2019
Superfarma Mayorista S.A.C.	From 2016 to 2019	From 2016 to 2019
Vanttive S.A.C.	From 2014 to 2019	From 2014 to 2019
Cifarma S.A.C.	From 2014 to 2019	From 2016 to 2019
Vanttive Cía Ltda.	From 2015 to 2019	From 2015 to 2019
Química Suiza S.A.C.	From 2016 to 2019	From 2014 to 2019
Quifatex S.A.	From 2015 to 2019	From 2015 to 2019
Quideca S.A.	From 2013 to 2019	From 2017 to 2019
Quimiza Ltda.	From 2013 to 2019	From 2013 to 2019
Droguería La Victoria S.A.C.	From 2015 to 2018	From 2016 to 2018
Jorsa de la Selva S.A.C.	From 2014 to 2019	From 2014 to 2019
Mifarma S.A.C.	From 2015 to 2019	From 2016 to 2019
Albis S.A.C.	From 2015 to 2019	From 2016 to 2019
Botica Torres de Limatambo S.A.C.	From 2015 to 2018	From 2016 to 2018
Empresa Comercializadora Mifarma Bolivia S.A.	From 2010 to 2019	From 2010 to 2019
Patrimonio Fideicomiso Mercantil de acciones	From 2015 to 2019	From 2015 to 2019
Farmacías Peruanas S.A.C.	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 December 31, 2019 and December 31, 2018.

- (f) As of December 31, 2019 and December 31, 2018, estimated losses from previous periods for Subsidiaries for tax purposes are the following:

	As of December 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Albis S.A.C.	55,494	87,871
Jorsa de la Selva S.A.C.	1,959	3,813
Superfarma Mayorista S.A.C.	-	1,035
Vanttive S.A.C.	1	674
Total	57,454	93,393

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., Superfarma Mayorista S.A.C. 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)

18. Operating expenses

(a) The table below presents the components of this caption for the twelve-months period ended December 31, 2019 and 2018:

	2019 S/(000)	2018 S/(000)
Cost of sales	4,722,550	4,769,117
Selling expenses	1,280,296	1,256,075
Administrative expenses	238,044	247,621
Total	6,240,890	6,272,813

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

	2019			Total S/(000)
	Cost of sales S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	
Initial balance of goods, Note 7 (a)	1,022,755	-	-	1,022,755
Initial balance of raw material, Note 7 (a)	11,796	-	-	11,796
Initial balance of suppliers, Note 7 (a)	1,075	-	-	1,075
Initial balance of finished goods, Note 7 (a)	672	-	-	672
Purchase of goods and suppliers	4,612,874	-	-	4,612,874
Final balance of goods, Note 7 (a)	(997,569)	-	-	(997,569)
Final balance of raw materials, Note 7 (a)	(15,204)	-	-	(15,204)
Final balance of suppliers, Note 7 (a)	(1,008)	-	-	(1,008)
Final balance of finished goods, Note 7 (a)	(189)	-	-	(189)
Impairment of inventories Note 7 (c)	7,211	-	-	7,211
Factory overhead	27,790	-	-	27,790
Personnel expenses	-	585,310	159,718	745,028
Depreciation, Note 10 (a)	4,330	64,380	8,112	76,822
Depreciation of right-of-use asset, Note 10 (a)	5,255	220,216	5,944	231,415
Amortization, Note 11 (d)	69	35,365	4,220	39,654
Key money amortization	-	-	-	-
Services provided by third parties (b)	-	237,618	38,512	276,130
Advertising	-	49,961	-	49,961
Packing and packaging	-	14,152	126	14,278
Rental of premises	-	17,630	1,628	19,258
Taxes	-	9,305	7,725	17,030
Provision for doubtful trade receivables, Note 6(e)	-	5,107	61	5,168
Provision for doubtful other account receivables	-	75	340	415
Recoveries of provision trade account receivables, Note 6(e)	-	(964)	-	(964)
Recovery of provision other account receivables	-	(157)	-	(157)
Insurance	-	11,803	901	12,704
Other charges (c)	42,693	30,495	10,757	83,945
Total	4,722,550	1,280,296	238,044	6,240,890

Notes to the interim consolidated financial statements (continued)

	2018			
	Cost of sales	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)	S/(000)
Initial balance of goods	378,527	-	-	378,527
Subsidiary acquisition	663,721	-	-	663,721
Purchase of goods	4,677,576	-	-	4,677,576
Final balance of goods	(1,022,755)	-	-	(1,022,755)
Final balance of raw materials	(11,796)	-	-	(11,796)
Final balance of suppliers	(1,075)	-	-	(1,075)
Final balance of finished goods	(672)	-	-	(672)
Impairment of inventories, Note 7 (c)	6,508	-	-	6,508
Factory overhead	22,291	-	-	22,291
Personnel expenses	-	583,554	151,495	735,049
Depreciation, Note 10 (d)	3,926	58,998	8,238	71,162
Amortization, Note 11 (d)	124	33,373	3,836	37,333
Key money amortization	-	4,726	-	4,726
Services provided by third parties (b)	-	217,252	54,840	272,092
Advertising	-	45,642	227	45,869
Packing and packaging	-	13,438	101	13,539
Rental of premises	-	249,370	9,034	258,404
Taxes	-	11,466	9,835	21,301
Provision for doubtful trade receivables, Note 6(e)	-	6,129	1	6,130
Provision for doubtful other account receivables	-	71	-	71
Recovery of provision for doubtful other account receivables	-	(128)	(198)	(326)
Recovery of provision for doubtful, Note 6(e)	-	(3,280)	(15)	(3,295)
Insurance	-	9,192	798	9,990
Other charges (c)	52,742	26,272	9,429	88,443
Total	4,769,117	1,256,075	247,621	6,272,813

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

(c) Mainly includes general expenses in stores.

19. Financial expenses

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

	2019	2018
	S/(000)	S/(000)
Interest on loans, borrowings and bonds payable	120,395	120,861
Interest on loans with related parties	-	5,154
Interest on lease liability, Note 13	51,887	-
Accrual of structuring cost of financial obligation	4,934	36,399
Interest from derivative instruments "Call Spread"	3,328	3,194
Premium accrual of "Call Spread"	11,129	6,634
Other financial expenses	10,191	10,422
Total	201,864	182,664

Notes to the interim consolidated financial statements (continued)

- (b) As of December 31, 2019 and December 31, 2018, there are interest payable for these obligations for approximately S/18,557,000 and S/20,864,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.

20. Transactions with related parties

- (a) The following table provides the total amount of transactions that have been entered into with related parties for the twelve-month period ended as of December 31, 2019 and 2018:

	2019 S/(000)	2018 S/(000)
Income		
Sales	33,737	42,515
Rendering of services	1,134	291
Interest income	2,156	11,739
Others	2,117	5,617
Total	39,144	60,162
Expenses		
Renting of premises and land	4,043	13,378
Reimbursement of expenses	4,462	6,166
Other services	-	-
Interest	6,456	5,154
Others	4,413	10,884
Total	19,374	35,582

- (b) As a result of the transactions with related companies, the InRetail Pharma Group recorded the following balances as of December 31, 2019 and December 31, 2018:

	As of December 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Receivables		
Supermercados Peruanos S.A. (e)	7,834	2,724
InRetail Shopping Malls	-	60
Homecenters Peruanos S.A. (e)	138	121
Homecenters Oriente S.A.C.	13	11
Financiera Oh! S.A.	767	75
InRetail Consumer	-	54
Plaza Veja Oriente S.A.C.	225	266
Others	-	3,501
Total	8,977	6,812

Notes to the interim consolidated financial statements (continued)

	As of December 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Payables		
Homecenters Peruanos S.A.	17	5
InRetail Perú Corp.	-	30
Financiera Oh! S.A.	685	416
Tiendas Peruanas S.A.	-	10
Tiendas Peruanas Oriente S.A.C.	-	13
Homecenters Oriente S.A.C.	-	1
Real Plaza S.R.L.	78	46
Supermercados Peruanos S.A.	1,555	2,056
IR Management S.R.L.	668	250
Patrimonio Interproperties Perú	701	131
Inmobiliaria Puerta del Sol S.A.	-	13
Centro comercial Estación Central S.A.	16	-
Otros	255	371
Total	3,975	3,342

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 December 31, 2019 and December 31, 2018, the InRetail Pharma Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.
- (d) In January 2018, the Company granted a loan to Patrimonio en Fideicomiso D.S. 093-EF-2012 InRetail Consumer of US\$322,000,000 equivalent to S/1,039,738,000 at transaction date, this loan was used for the prepayment of the "Senior Notes Unsecured" that accrues an annual interest of 5.50 percent and is due in January 2019. In April 2018, this loan was fully paid.
- (e) Corresponds to the balances pending for the sale of goods of Química Suiza S.A.C. as of December 31, 2019.
- (f) In May 2019, the Company granted a loan to InRetail Perú Corp. (the Parent Company) for S/31,635,000, accrued an annual interest of 5.07 percent. This loans was fully paid.

Notes to the interim consolidated financial statements (continued)

- (g) In June 2019, the Company granted a loan to InterCorp Retail Inc. (the Parent Company) for S/83,750,000, accrued an annual interest of 6.50 percent.

In August 2019, the debt was fully paid, including interest. This payment is present in the consolidated statement of cash flows.

- (h) Banco Internacional del Perú – Interbank signed leasing contracts with InRetail Pharma S.A. which to date have outstanding balances of approximately S/27,412,000. These leasing contracts accrue annual interest rates of 7.85 percent, this obligation was paid fully in the third quarter 2019. These transactions are included in “Interest-bearing loans and borrowings”. During the twelve-months periods ended December 31, 2019 and 2018, leasing contracts generated interests which are recorded in the “Financial expenses” caption of the consolidated income statement.
- (i) The compensation of key management personnel of the InRetail Pharma Group for the twelve-months periods ended December 31, 2019 and 2018, is detailed below:

	2019	2018
	S/(000)	S/(000)
Short term employee benefits	24,545	33,189
Insurance and medical benefits	78	60
Employment benefits for contract termination	1,884	512
Total	26,507	33,761

- (j) As of December 31, 2019 and December 31, 2018, the InRetail Pharma Group maintains the following balances in the cash and cash equivalent captions:

	2019	2018
	S/(000)	S/(000)
Banco Internacional del Peru – Interbank S.A.A.	338,445	251,156
Inteligo Bank Ltd.	976	11
Interfondos	-	1,000

Notes to the interim consolidated financial statements (continued)

21. Earnings per share

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

The following reflects basic and diluted earnings per share computations:

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 1, 2018	13,783,428	360	13,783,428
Share issued in the period	2,055,951	252	1,439,166
Number as of December 31, 2018	<u>15,839,379</u>		<u>15,222,594</u>
Number as of January 1, 2019	15,839,379	360	15,839,379
Number as of December 31, 2019	<u>15,839,379</u>		<u>15,839,379</u>
	For the twelve-months-period ended December 31, 2019		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	<u>294,645,000</u>	<u>15,839,379</u>	<u>18.602</u>
	For the twelve-months-period ended December 31, 2018		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	<u>154,592,000</u>	<u>15,222,594</u>	<u>10.155</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.

22. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of December 31, 2019, the Company and its Subsidiaries agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/61,211,000, US\$6,352,000 and b\$646,000 (S/64,558,000, US\$6,135,000 and b\$1,384,000 as of December 31, 2018), 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 December 31, 2019 and December 31, 2018.
- (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. (formerly Farmacias Peruanas 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. (formerly Farmacias Peruanas 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.

23. 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 December 31, 2019 and December 31, 2018, and for the twelve-month periods ended December 31, 2019 and 2018, InRetail Pharma S.A. is organized into two main business lines, see Note 2. Transactions between the business segments are carried out under normal commercial terms and conditions. The following table presents the financial information of InRetail Pharma Group by business segments for the twelve-month periods ended December 31, 2019 and 2018

	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 twelve-month period ended December 31, 2019					
Revenue					
External income	5,031,012	1,817,593	6,848,605	-	6,848,605
Inter-segment	3,049	647,249	650,298	(647,249)	3,049
Total revenue	5,034,061	2,464,842	7,498,903	(647,249)	6,851,654
Cost of sales	(3,232,192)	(1,491,879)	(4,724,071)	-	(4,724,071)
Inter-segment	(3,049)	(629,978)	(633,027)	634,548	1,521
Gross profit	1,798,820	342,985	2,141,805	(12,701)	2,129,104
Selling expenses	(1,072,734)	(200,139)	(1,272,873)	(7,423)	(1,280,296)
Administrative expenses	(170,528)	(70,211)	(240,739)	2,695	(238,044)
Other operating income, net	2,754	4,016	6,770	(433)	6,337
Operating profit	558,312	76,651	634,963	(17,862)	617,101
Exchange difference, net	9,423	(865)	8,558	(11)	8,547
Financial income	125,489	52,710	178,199	(162,939)	15,260
Financial expenses	(199,578)	(20,700)	(220,278)	18,414	(201,864)
Profit before income tax	493,646	107,796	601,442	(162,398)	439,044
Income tax expense	(140,347)	(19,515)	(159,862)	15,463	(144,399)
Profit for the year	353,299	88,281	441,580	(146,935)	294,645
Attributable to:					
Owners of the parent	353,299	88,281	441,580	(146,935)	294,645
Non-controlling interests	-	-	-	-	-
Net profit	353,299	88,281	441,580	(146,935)	294,645

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 twelve-month period ended December 31, 2018					
Revenue					
External income	4,735,391	1,968,490	6,703,881	-	6,703,881
Inter-segment	7,763	625,120	632,883	(632,883)	-
Total revenue	4,743,154	2,593,610	7,336,764	(632,883)	6,703,881
Cost of sales	(3,137,204)	(1,608,777)	(4,745,981)	(23,136)	(4,769,117)
Inter-segment	-	(602,808)	(602,808)	602,808	-
Gross profit	1,605,950	382,025	1,987,975	(53,211)	1,934,764
Selling expenses	(1,044,651)	(214,720)	(1,259,371)	3,296	(1,256,075)
Administrative expenses	(175,606)	(83,060)	(258,666)	11,045	(247,621)
Other operating income (expenses), net	(9,643)	(27,824)	(37,467)	32,866	(4,601)
Operating profit	376,050	56,421	432,471	(6,004)	426,467
Exchange difference, net	(32,282)	(707)	(32,989)	13	(32,976)
Financial income	44,730	4,062	48,792	(14,958)	33,834
Finance expenses	(178,729)	(21,210)	(199,939)	17,275	(182,664)
Profit before income tax	209,769	38,566	248,335	(3,674)	244,661
Income tax expense	(73,889)	(27,430)	(101,319)	11,250	(90,069)
Profit for the year	135,880	11,136	147,016	7,576	154,592
Attributable to:					
Owners of the parent	135,880	11,136	147,016	7,576	154,592
Non-controlling interests	-	-	-	-	-
Net profit	135,880	11,136	147,016	7,576	154,592

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

Geographic information-

As of December 31, 2019 and December 31, 2018, 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

24. 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 months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments. Also, the derivative instrument by the InRetail Pharma Group is recorded at fair value.

(b) Fixed-rate financial instruments

The fair value of financial assets and liabilities at fixed interest rates and amortized cost is determined by comparing market interest rates at their initial recognition to current market rates related to similar financial instrument. The estimated fair value of interest-bearing deposits is determined through discounted cash flows by using market interest rates in the prevailing currency with similar maturities and credit risks.

(c) 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.

Fair value hierarchy

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

Notes to the interim consolidated financial statements (continued)

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

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

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

The InRetail Pharma Group does not maintain any financial instrument with fair value determination under level 3 and there were no transfers between levels during the twelve-month periods ended December 31, 2019 and 2018. 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.

25. 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 December 31, 2019 the weighted average exchange rates in the market for transactions in US Dollars were S/3.311 per US\$1.00 bid and S/3.317 per US\$ 1.00 ask (S/3.369 and S/3.379 per US\$1.00 for bid and ask as of December 31, 2018).

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by authorized entities of the country in which Company and its subsidiaries operate. As of December 31, 2019 and December 31, 2018, the weighted average exchange rate at the market for transactions of the different currency in relation to the Sol are as following:

Exchange rate per soles	2019	2018
U. S. Dollars (US\$)	0.301	0.296
Bolivian Peso (b\$)	2.098	2.060
Colombian Peso (\$)	987.983	961.749

As of December 31, 2019 and December 31, 2018, the InRetail Pharma Group held the following foreign currency assets and liabilities:

	As of December 31, 2019			As of December 31, 2018		
	US\$(000)	b\$(000)	\$(000)	US\$(000)	b\$(000)	\$(000)
Assets						
Cash and short-term deposits	11,769	6,669	679,864	13,251	10,186	2,279,790
Investments at fair value through equity	13,722	-	-	10,787	-	-
Trade receivables, net	51,762	45,088	9,833,962	56,272	37,453	9,941,230
Other accounts receivables, net	5,000	4,632	-	6,526	5,968	286,353
Accounts receivable from related parties	81	-	-	-	-	-
Total assets	82,334	56,389	10,513,826	86,836	53,607	12,507,373
Liabilities						
Trade payables	(61,703)	(28,498)	(5,484,008)	(69,862)	(24,929)	(6,024,207)
Other payables	(11,830)	(13,089)	-	(10,424)	(12,098)	(1,881,564)
Accounts payable to related parties	-	-	-	(1,171)	-	-
Lease liability	(14,842)	(540)	-	-	-	-
Interest - bearing loans and borrowings	(422,428)	-	(3,600,000)	(437,744)	-	(2,900,000)
Total Liabilities	(510,803)	(42,127)	(9,084,008)	(519,201)	(37,027)	(10,805,771)
Call Spread	400,000	-	-	400,000	-	-
Net (liability) assets position	(28,469)	14,262	1,429,818	(32,365)	16,580	1,701,602

Notes to the interim consolidated financial statements (continued)

As of December 31, 2019 and December 31, 2018, 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 December 31, 2019 and December 31, 2018, protects it from exchange rate fluctuations between S/3.26 and S/3.75 as of December 31, 2019 and December 31, 2018 and will be effective until maturity of the “Senior Notes Unsecured”. See further detail in Note 9 and 14.

26. Subsequence event

At the General Shareholders’ Meeting of InRetail Pharma S.A. held on February 10, 2020, was approved, the dividend distribution of S/79,000,000.

27. 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.