

InRetail Pharma S.A. and Subsidiaries

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

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Interim consolidated financial statements as of December 31, 2020 and December 31, 2019 and for the twelve-month period ended December 31, 2020 and 2019.

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Interim consolidated statements of financial position

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

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

	Note	2020	2019		Note	2020	2019
		S/(000)	S/(000)			S/(000)	S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and short-term deposits	4	541,256	589,253	Trade payables	11	1,593,595	1,531,833
Trade receivables, net	5	523,091	488,875	Other payables		256,787	241,430
Other receivables, net		68,268	37,525	Accounts payable to related parties	19(b)	4,081	3,975
Accounts receivables from related parties	19(b)	7,935	8,977	Interest-bearing loans and borrowings	13	189,871	140,840
Inventories, net	6	1,186,698	1,019,273	Lease liability	12(c)	159,650	218,620
Taxes recoverable		99,022	51,205	Current income tax	14(b)	72,855	21,907
Prepayments		4,595	5,676	Total current liabilities		2,276,839	2,158,605
Total current assets		2,430,865	2,200,784				
Non-current assets				Non-current liabilities			
Other receivables, net		29,671	24,745	Other payables		1,653	1,424
Investments at fair value through equity	7	54,061	45,435	Interest-bearing loans and borrowings	13	2,033,994	1,962,073
Derivative financial instrument	8	112,273	63,508	Lease liability	12(c)	448,648	452,569
Property, furniture and equipment, net	9	570,506	560,693	Reserves for employee retirement pension funds		21,131	19,865
Right-of-use assets, net	12(b)	572,850	685,120	Deferred income tax liabilities, net	14(a)	206,516	240,762
Intangible assets, net	10	1,940,470	1,978,012	Total non-current liabilities		2,711,942	2,676,693
Deferred income tax assets, net	14(a)	84,887	46,293	Total liabilities		4,988,781	4,835,298
Other assets		7,949	7,208				
Total non-current assets		3,372,667	3,411,014	Equity			
Total assets		5,803,532	5,611,798	Capital stock	15(a)	15,840	15,840
				Capital premium	15(b)	482,835	482,835
				Other reserves		21,023	2,449
				Unrealized results from derivative financial instruments		(46,668)	(3,373)
				Unrealized results from valuation of investment at fair value		14,774	8,692
				Unrealized results from actuarial reserve for retirement		1,065	477
				Unrealized results from foreign currency translation		2,115	(239)
				Retained earnings		323,767	269,819
				Total equity		814,751	776,500
				Total liabilities and equity		5,803,532	5,611,798

InRetail Pharma S.A. and Subsidiaries

Interim consolidated Income statements

For the twelve-month period ended December 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Net sales of goods		6,908,176	6,611,147
Rental income		92,876	70,576
Rendering of services		190,431	169,931
Revenue		7,191,483	6,851,654
Cost of sales	17	(4,992,245)	(4,722,550)
Gross profit		2,199,238	2,129,104
Selling expenses	17	(1,271,772)	(1,279,397)
Administrative expenses	17	(287,583)	(238,044)
Other operating income, net		9,483	5,438
Operating profit		649,366	617,101
Financial income		9,631	15,260
Financial expenses	18	(190,469)	(201,864)
Exchange difference, net		(44,509)	8,547
Profit before income tax		424,019	439,044
Income tax expense	14(a)	(141,458)	(144,399)
Net profit		282,561	294,645
Earnings per share:			
Basic and diluted profit for the period	20	17.839	18.602

All items above are related to continuing operations.

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

InRetail Pharma S.A. and Subsidiaries

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

	2020	2019
	S/(000)	S/(000)
Profit for the period	282,561	294,645
Other comprehensive income		
Unrealized gain on investments at fair value through equity	8,627	9,156
Income tax effect	(2,545)	(2,701)
Total other comprehensive income from investments at fair value through equity	6,082	6,455
Unrealized loss from derivative financial instrument	(61,412)	12,742
Income tax effect	18,117	(3,759)
Total comprehensive income from derivative financial instruments	(43,295)	8,983
Unrealized gain from actuarial reserve for retirement	588	297
Total comprehensive income from actuarial reserve for retirement	588	297
Unrealized gain from foreign currency translation	1,674	(245)
Total comprehensive income from foreign currency translation	1,674	(245)
Other comprehensive income for the period, net of income tax effects	(34,951)	15,490
Total comprehensive income for the period	247,610	310,135

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated statements of change in equity

For the twelve-month period ended December 31, 2020 and 2019

	Capital stock	Capital premium	Other reserves	Unrealized results from derivative financial instrument	Unrealized results from investment at fair value through equity	Unrealized results from actuarial reserve for retirement	Unrealized results from foreign currency translation	Retained earnings	Total equity
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Balance as of January 1, 2019	15,840	482,835	2,449	(12,356)	2,237	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	294,645
Other comprehensive income	-	-	-	8,983	6,455	297	(245)	-	15,490
Total comprehensive income	-	-	-	8,983	6,455	297	(245)	294,645	310,135
Dividends paid	-	-	-	-	-	-	-	(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
Balance as of January 1, 2020	15,840	482,835	2,449	(3,373)	8,692	477	(239)	269,819	776,500
Profit for the period	-	-	-	-	-	-	-	282,561	282,561
Other comprehensive income	-	-	-	(43,295)	6,082	588	1,674	-	(34,951)
Total comprehensive income	-	-	-	(43,295)	6,082	588	1,674	282,561	247,610
Dividends paid	-	-	-	-	-	-	-	(209,362)	(209,362)
Transfer to other reserve	-	-	18,589	-	-	-	-	(18,589)	-
Other equity change	-	-	(15)	-	-	-	680	(662)	3
Balance as of December 31, 2020	15,840	482,835	21,023	(46,668)	14,774	1,065	2,115	323,767	814,751

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

InRetail Pharma S.A. and Subsidiaries

Interim consolidated statements of cash flows

For the twelve-month period ended December 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Operating activities			
Revenue		7,143,669	6,834,599
Payment of goods and services to suppliers		(5,487,417)	(5,207,226)
Payment of salaries and social benefits to employees		(786,807)	(744,920)
Taxes paid		(193,236)	(106,912)
Recovery of taxes		3,938	19,319
Other payments, net		(21,514)	(2,257)
Net cash flows from operating activities		658,633	792,603
Investing activities			
Collection of loans granted to related parties		111,000	115,385
Collection of interest on loans granted to related parties		-	1,470
Sales of investments at fair value through equity		-	29,367
Rescue of investments at fair value through profit or loss		-	11,000
Sale of subsidiary, net of cash delivered		5,834	-
Purchase of investments at fair value through equity		-	(29,724)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts		(73,176)	(42,453)
Purchase of investments at fair value through profit and loss		-	(10,000)
Loans granted to related parties		(111,000)	(115,385)
Purchase and development of intangible assets		(23,206)	(6,157)
Net cash flows used in investing activities		(90,548)	(46,497)
Financing activities			
Proceeds from interest-bearing loans and borrowings, net of structuring cost		656,143	320,695
Payment of interest-bearing loans and borrowings		(674,579)	(435,814)
Payment of lease liability	12	(216,526)	(202,321)
Interest payment of lease liability	12	(44,137)	(51,887)
Payment of dividends		(209,362)	(138,130)
Interest paid		(127,621)	(124,532)
Net cash flows used in financing activities		(616,082)	(631,989)
Net (decrease) increase of cash and short-term deposits		(47,997)	114,117
Cash and short-term deposits at the beginning of the period		589,253	475,136
Cash and short-term deposits at the end of the period		541,256	589,253
Non-cash transactions			
Fixed assets purchased through leasing and other financial obligations		5,146	4,743
Initial recognition of right-of-use assets		-	794,724
Addition of right-of-use assets		118,334	102,637

The accompanying notes are an integral part of these consolidated statements

Notes to the interim consolidated financial statements (continued)

InRetail Pharma S.A. and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of December 31, 2020 and December 31, 2019 and for the twelve-month period ended December 31, 2020 and 2019

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

a) Identification

InRetail Pharma S.A. (hereinafter “the Company”), was incorporated on August 2, 1996. As of December 31, 2020 and December 31, 2019, the Company is a subsidiary of InRetail Peru Corp. which holds 87.02 percent of the Company’s capital stock. Likewise, InRetail Perú Corp. is a subsidiary of Intercorp Retail Inc., which is one of the entities of the Intercorp Perú Group operating in Peru and abroad.

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

b) Business activity

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

c) Quicorp Group acquisition

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

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

d) Reorganization process

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

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

Notes to the interim consolidated financial statements (continued)

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

Considering that the subsidiaries were controlled, directly and indirectly, by the Company and/or its shareholders since previous years, such reorganization processes had no impact on the consolidated financial statements as of December 31, 2020 and 2019.

e) Pandemic

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

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

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

The accompanying interim consolidated financial statements as of December 31, 2020 and 2019 were approved by the Board of Directors on February 23, 2021.

2. Subsidiary activities

The Company and its Subsidiaries (hereinafter the "InRetail Pharma Group") are dedicated to the commercialization, manufacturing, distribution and marketing, nationally and internationally, of pharmaceutical products, cosmetics, food for medical use and other foods intended for protection and recovery of health through its "Inkafarma and Mifarma" pharmacy chains. The company and its subsidiaries operate 2,165 stores as of December 31, 2020 (2,077 stores as of December 31, 2019) and have operations in Peru, Colombia, Ecuador and Bolivia.

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

- (a) Eckerd Amazonia S.A.C. was incorporated and started its activities in September 2001. It is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its "Inkafarma" pharmacy chain. This Subsidiary's legal address is Alfonso Ugarte Avenue 1283, Loreto, Iquitos, Peru.

Notes to the interim consolidated financial statements (continued)

- (b) Boticas del Oriente S.A.C. was incorporated and started its activities in December 2007. It is dedicated to the commercialization of pharmaceutical products, cosmetic products, food for medical use and other elements aimed for health protection and recovery through its “Inkafarma” pharmacy chain. This Subsidiary’s legal address is Alfonso Ugarte Avenue 1283, Loreto, Iquitos, Peru.
- (c) Droguería Pharma S.A.C. began operations in August 2020. Its economic activity is the purchase and wholesale of pharmaceutical products, personal care and other products for the protection and recovery of health.
- (d) Farmacias Peruanas S.A.C. started operations in August 2020. Its economic activity is to provide business, administrative and logistical services for the companies of the Pharma group.
- (e) Quicorp S.A. is a Holding incorporated in Peru in September 2010, and maintains 100 percent the assets of Química Suiza Comercial S.A.C. which in turn maintains 100 percent of the equity of the following Companies:
- i. Química Suiza S.A.C.
It was incorporated in Peru on March 6, 1939 and its legal address is located at Av. República de Panamá N° 2577, Lima, Peru.

It is dedicated to the import, representation, and commercialization of pharmaceutical, food, cosmetic and, chemical nationwide, as well as other consumer products in general. In addition, it receives commissions for acting as broker in the sale of raw materials for foreign suppliers and income from various service provision.
 - ii. Cifarma S.A.C.
It was incorporated in Peru on July 1, 1992. It is a Subsidiary of Quicorp S.A., product of the spin-off approved on May 1, 2019, who owns 99.99% of its share capital. Until April 30, 2019, it was a subsidiary of Química Suiza S.A.C. and up to September 30, 2010, Cifarma S.A.C. was a Subsidiary of Roxilan S.A., a company incorporated in Switzerland, which owned 71.96% of its capital. The registered office of Cifarma S.A. is located at Carretera Central Km. 3 N° 1315 Santa Anita, Lima, Perú.

Cifarma S.A.C. provides services related to manufacturing and packaging of pharmaceutical, cosmetic and chemical products, with Química Suiza S.A.C. as its main client.
 - iii. Mifarma S.A.C.
Is a Subsidiary of Quicorp S.A., product of the spin-off approved on May 1, 2019, who owns 99.99% of its capital. It was incorporated on November 22, 2005. Until April 30, 2019, it was a subsidiary of Química Suiza S.A.C. The registered office is located at Calle Víctor Alzamora N° 147, Urb. Santa Catalina, Lima, Perú.

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

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

Notes to the interim consolidated financial statements (continued)

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

iv. Mifarma S.A.

It was incorporated in La Paz, Bolivia on March 12, 2010. It is dedicated to the import, export, purchase, sale, production, by itself or third parties, and trade of all pharmaceutical and medical products in general belonging to local and foreign companies it represents.

In October 2020, Mifarma de Bolivia, which operated 23 pharmacies, was sold to an unrelated third party, the amount of the sale was S/7,233,000.

v. Vanttive S.A.C.

It was incorporated in Peru on July 11, 2012. It is a direct Subsidiary of Quimica Suiza S.A.C., a company incorporated in Peru, which owns 99.99% of its capital stock as of December 31, 2020 and December 31, 2019. The registered office is located at Av. República de Panamá N°2577, La Victoria, Lima.

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

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

vi. Quifatex S.A.

It was incorporated on May 26, 1978 in the city of Quito, Ecuador. The registered office is located at Av. 10 de Agosto 10640 y Manuel Zambrano, Quito, Ecuador. It is controlled and supervised by the Superintendence of Corporations in the Republic of Ecuador.

It is dedicated to the commercialization, distribution, representation, import, and export of pharmaceutical, nutrition, chemical, cosmetic, food, veterinary, insecticidal, fertilizing and liquor products, and well as tools and machinery in general.

vii. Vanttive Cía. Ltda.

It was incorporated on July 17, 2003 in the city of Quito, Ecuador. The registered office is located at Av. 10 de Agosto 10640 y Manuel Zambrano, Quito, Ecuador. It is controlled and supervised by the Superintendence of Corporations in the Republic of Ecuador.

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

viii. Quimiza Ltda.

It was incorporated on August 26, 1978. It is a distributor in the cities of Tarija, Oruro, and Potosí, as well as a distribution center in Santa Cruz, Bolivia. In addition, it has offices, agencies, and branches in other districts of the country. Currently, it has four offices in the cities of Santa Cruz (main office), La Paz, Cochabamba, and Sucre.

Notes to the interim consolidated financial statements (continued)

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.

ix. Quimica Suiza Colombia S.A.S. (Formerly Quideca S.A.)

It was incorporated on March 13, 2006 in Bogota, Colombia and is legally effective up to March 13, 2056.

It is dedicated to the purchase, sale, commercialization, promotion, distribution, representation, import, and export of health and pharmaceutical products, including vaccines, food, cosmetic, hygiene, personal care and home products. It also trades pesticides, herbicides, insecticides, fertilizers, chemical and agrochemical products, construction additives, tools, and equipment.

x. Albis S.A.C.

Is a private legal entity incorporated in 1998 as a result of the merger of Distribuidora Albis S.A. with Albis Data S.A.

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

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

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

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

xii. Superfarma Mayorista S.A.C.

Is a stock corporation incorporated by means of a public instrument dated January 20, 2016 and clarifying public instrument dated February 1, 2016.

The Company's registered and administrative offices are located at Av. República de Panamá 2537, Urb. Santa Catalina, Lima, Perú.

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

Notes to the interim consolidated financial statements (continued)

3. Basis of preparation and presentation, changes in the accounting policies of the Pharma group

(a) Interim financial statements

The consolidated financial statements of the InRetail Pharma Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Boards (IASB), effective as of December 31, 2020 and December 31, 2019, respectively.

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

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

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

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

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

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

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

(b) Basis of consolidation

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

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

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

Notes to the interim consolidated financial statements (continued)

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

The accounting policies followed in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as of December 31, 2019.

(c) New accounting standards

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

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

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

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

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

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

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

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

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

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

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

Notes to the interim consolidated financial statements (continued)

4. Cash and short-term deposits

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

	As of December 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Cash (b)	6,186	5,468
Current accounts (c)	507,495	545,966
Time deposits (d)	639	6,480
Cash in transit	26,936	31,339
Total	541,256	589,253

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

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

(d) As of December 31, 2020, the time deposits are freely available and are kept in local and foreign banks in Colombian pesos, have maturities up to one month since inception and bear annual interest rates between 1.50 and 1.62 percent annually in Colombian pesos (between 0.01 and 4.37 percent annually in Soles as of December 31, 2019).

5. Trade receivables, net

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

	As of December 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Trade accounts receivable (b)	558,690	528,286
Credit card operators (c)	13,145	5,323
Total	571,835	533,609
Provision for doubtful accounts (d)	(48,744)	(44,734)
Total	523,091	488,875

(b) Trade receivables are denominated in the currency of each country and US Dollars, have current maturity and do not bear interest.

(c) Corresponds mainly to pending deposits in favor of InRetail Pharma Group for the last days of the month, held by credit card operators and originated from the sale of goods with credit cards in the different stores of InRetail Pharma Group.

Notes to the interim consolidated financial statements (continued)

- (d) The movement in the provision for doubtful accounts receivables for the twelve-month period ended December 31, 2020 and 2019, were as follows:

	2020	2019
	S/(000)	S/(000)
Balance at the beginning of the period	44,734	45,519
Provision recognized as expense, Note 17 (a)	8,827	5,168
Recoveries, Note 17 (a)	(1,514)	(157)
Write-offs	(5,000)	(5,725)
Foreign currency translation	1,697	14
Others	-	(85)
Balance at the end of the period	48,744	44,734

As of December 31, 2020 and December 31, 2019, the amount of overdue account receivables but non-impaired amounted to approximately S/86,504,000 and S/66,940,000, respectively.

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

6. Inventories, net

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

	As of December 31,	As of December 31,
	2020	2019
	S/(000)	S/(000)
Goods, Note 17 (a)	1,036,336	997,569
In transit inventories (b)	142,055	15,624
Raw material, Note 17 (a)	19,552	15,204
Miscellaneous supplies	3,393	2,204
Miscellaneous supplies for manufacturing, Note 17 (a)	550	1,008
Finished goods, Note 17 (a)	455	189
Total	1,202,341	1,031,798
Minus		
Provision for impairment of inventories (c)	(15,643)	(12,525)
Total	1,186,698	1,019,273

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

Notes to the interim consolidated financial statements (continued)

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

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the period	12,525	10,763
Provision of the period, Note 17 (a)	9,998	7,211
Write-off	(7,218)	(5,288)
Foreign currency translation	338	(39)
Balance at the end of the period	15,643	12,525

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

7. Investment at fair value through equity

As of December 31, 2020, the Company has other investments at fair value through equity for an amount of US\$14,942,000 equivalent to S/54,061,000 (US\$13,722,000 equivalent to S/45,435,000 as of December 31, 2019).

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

As of December 31, 2020 and December 31, 2019, the unrealized result net of deferred tax is S/14,774,000 and S/8,692,000 respectively and is presented in the consolidated statement of changes in equity.

Notes to the interim consolidated financial statements (continued)

8. Derivative financial instrument

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

Counterparty	Nominal value	Due	Pay fix at	Book value of the hedged item	Fair value 2020	Fair value 2019
	US\$(000)		%	S/(000)	S/(000)	S/(000)
Citibank N.A.	400,000	May-23	2.38	1,449,600	112,273	63,508
Total					112,273	63,508

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

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

Notes to the interim consolidated financial statements (continued)

9. Property, furniture and equipment, net

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

	Land	Building infrastructure and facilities	Furniture and fixture	Vehicles	Miscellaneous equipment	Work in progress	Total 2020	Total 2019
	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Cost								
Initial balance	257,346	366,667	134,146	1,442	341,530	9,362	1,110,493	1,099,085
Additions (b)	-	27,382	7,652	87	28,932	14,269	78,322	47,196
Sales (c)	-	(1,393)	(832)	-	(850)	-	(3,075)	(14,163)
Disposal (c)	-	(3,928)	(4,775)	(30)	(13,041)	(22)	(21,796)	(19,962)
Disposal of subsidiary	-	(1,203)	(1,121)	-	(1,821)	-	(4,145)	-
Transfer	-	20,020	3,625	-	6,261	(10,429)	19,477	-
Transfer to intangible assets, Note 10(a)	-	-	-	-	-	(271)	(271)	(654)
Foreign currency translation	-	377	929	4	4,001	4	5,315	(1,009)
Final balance	257,346	407,922	139,624	1,503	365,012	12,913	1,184,320	1,110,493
Accumulated depreciation								
Initial balance	-	206,453	94,866	1,096	247,385	-	549,800	510,188
Additions (d)	-	24,403	10,247	209	31,973	-	66,832	72,071
Sales (c)	-	(1,259)	(818)	-	(945)	-	(3,022)	(13,542)
Disposals (c)	-	(4,135)	(4,439)	(30)	(11,217)	-	(19,821)	(17,998)
Disposal of subsidiary	-	(801)	(867)	-	(1,668)	-	(3,336)	-
Transfers	-	13,325	4,751	(1)	1,278	-	19,353	-
Foreign currency translation	-	283	768	4	2,953	-	4,008	(919)
Final balance	-	238,269	104,508	1,278	269,759	-	613,814	549,800
Net book value	257,346	169,653	35,116	225	95,253	12,913	570,506	560,693

(b) Additions for the twelve-month period ended December 31, 2020 and December 31, 2019, correspond mainly to the construction and equipment of new premises for InRetail Pharma Group.

(c) It mainly corresponds 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-month period ended December 31, 2020 and 2019, was recorded as follows in the income statement:

	2020 S/(000)	2019 S/(000)
Sales expenses, Note 17 (a)	54,045	59,629
Administrative expenses, Note 17 (a)	6,600	8,112
Cost of sales, Note 17 (a)	6,187	4,330
Balance as of December 31	66,832	72,071

- (e) As of December 31, 2020, the cost and corresponding accumulated depreciation of assets acquired through financial leases amount to approximately S/77,094,000 and S/58,818,000, respectively (S/105,823,000 and S/67,575,000, as of December 31, 2019).
- (f) The InRetail Pharma Group maintains insurance policies on their main assets in accordance with the policies established by Management.

10. Intangible assets, net

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

	As of December 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Cost		
Initial balance	854,565	850,359
Additions (c)	23,206	6,157
Disposal and/or sales	(3,091)	(2,512)
Transfer	(6,409)	-
Transfer from property, plant and equipment, Note 9 (a)	271	654
Foreign currency translation	355	(93)
Final balance	868,897	854,565
Accumulated amortization		
Initial balance	149,187	111,534
Additions (d)	58,672	39,658
Disposals and/or sales	(698)	(1,940)
Transfer	(6,409)	-
Foreign currency translation	309	(65)
Final balance	201,061	149,187
Goodwill		
Initial balance	1,272,634	1,272,634
Additions	-	-
Final balance	1,272,634	1,272,634
Net, book value	1,940,470	1,978,012

Notes to the interim consolidated financial statements (continued)

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

	2020 S/(000)	2019 S/(000)
Sales expenses, Note 17 (a)	51,137	35,365
Administrative expenses, Note 17 (a)	7,116	4,220
Cost of sales, Note 17 (a)	419	73
Balance as of December 31	58,672	39,658

11. Trade payables

The table below presents the composition of this caption:

	As of December 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Bills payable from purchase of goods	1,458,088	1,404,911
Bills payable from commercial services	135,507	126,922
Total	1,593,595	1,531,833

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

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

Notes to the interim consolidated financial statements (continued)

12. Leases

- a) The InRetail Pharma Group maintains leasing contracts for buildings, facilities and vehicles used for its operations. Leases of buildings and facilities generally have terms of 1 to 5 years, and leases of vehicles have terms of 3 to 4 years. The InRetail Pharma Group's obligations under its leases are guaranteed by the lessor's title of the leased assets.

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

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

	Buildings infrastructure and facilities	Vehicles	As of December 31, 2020	As of December 31, 2019
	S/(000)	S/(000)	S/(000)	S/(000)
Cost				
Initial balance	913,459	1,947	915,406	-
First adoption of IFRS 16	-	-	-	825,176
Additions	116,941	1,393	118,334	102,637
Disposals and/or sales	(11,754)	(365)	(12,119)	(11,971)
Foreign currency translation	2,224	117	2,341	(436)
Final balance	1,020,870	3,092	1,023,962	915,406
Accumulated depreciation				
Initial balance	229,734	552	230,286	-
Additions, Note 17 (a)	227,133	877	228,010	231,415
Disposals and/or sales	(8,181)	(194)	(8,375)	(1,104)
Foreign currency translation	1,142	49	1,191	(25)
Final balance	449,828	1,284	451,112	230,286
Net book value	571,042	1,808	572,850	685,120

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

	2020	2019
	S/(000)	S/(000)
Sales expenses, Note 17 (a)	217,964	220,216
Administrative expenses, Note 17 (a)	5,245	5,944
Cost of sales, Note 17 (a)	4,801	5,255
Balance as of December 31	228,010	231,415

Notes to the interim consolidated financial statements (continued)

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

	As of December 31, 2020	As of December 31, 2019
	S(000)	S(000)
Initial balance	671,189	-
First adoption of IFRS 16	-	794,724
Additions	118,334	102,637
Increase for accrued interest, Note 19	44,137	51,887
Amortization	(256,206)	(254,208)
Disbursements made at the start of the contract	(4,457)	-
Disposal	(2,900)	(10,937)
Disposal subsidiary	(890)	-
Prepayment rents	286	(4,978)
Exchange rate	37,501	(7,551)
Foreign currency translation	1,304	(385)
Final balance	608,298	671,189
Current	159,650	218,620
Non-current	448,648	452,569
Final balance	608,298	671,189

Additionally, in the twelve-month period ended as of December 31, 2020 and 2019, interest related to the lease liability of S/44,137,000 and S/51,887,000, respectively, was accrued and is presented under "Financial expenses" in the consolidated financial statement of income.

Notes to the interim consolidated financial statements (continued)

13. Interest-bearing loans and borrowings

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

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount		B\$(000)	Total		Current		Non-current		
				US\$ (000)	\$ (000)		2020	2019	2020	2019	2020	2019	
				S/(000)	S/(000)		S/(000)	S/(000)	S/(000)	S/(000)			
Senior Notes Unsecured (b)													
Senior Notes Unsecured	PEN	6.438	2025	-	-	385,800	-	384,041	383,707	-	-	384,041	383,707
Senior Notes Unsecured	USD	5.375	2023	400,000	-	-	-	1,436,872	1,310,706	-	-	1,436,872	1,310,706
				400,000	-	385,800	-	1,820,913	1,694,413	-	-	1,820,913	1,694,413
Leasings													
Non related entities													
Banco de Crédito del Perú	PEN	5.500	2021	-	-	399	-	-	241	-	135	-	106
Banco Santander	PEN	7.650	2022	-	-	874	-	328	521	192	193	136	328
Banco Santander	PEN	6.920	2022	-	-	545	-	316	489	186	173	130	316
BBVA Banco Continental	PEN	4.950	2021	-	-	129	-	19	71	19	44	-	27
Banco Santander	PEN	8.550	2020	-	-	195	-	-	33	-	33	-	-
Banco de Crédito del Perú	PEN	7.560	2020	-	-	111	-	-	36	-	36	-	-
				-	-	2,253	-	663	1,391	397	614	266	777

Notes to the interim consolidated financial statements (continued)

Type of obligation	Original currency	Interest rate %	Final maturity	Original amount				Total		Current		Non-current	
				US\$ (000)	\$ (000)	S/(000)	B\$(000)	2020	2019	2020	2019	2020	2019
								S/(000)	S/(000)	S/(000)	S/(000)	S/(000)	S/(000)
Notes and Loans													
Related entities													
Banco Internacional del Perú-Interbank (g)	PEN	4.700	2025	-	-	161,950	-	103,363	126,333	22,970	22,970	80,393	103,363
Banco Internacional del Perú-Interbank	PEN	0.400	2021	-	-	35,000	-	35,000	-	35,000	-	-	-
Non related entities													
Banco Scotiabank (c)	PEN	4.700	2025	-	-	161,950	-	103,380	126,353	22,973	22,973	80,407	103,380
Banco de Bogotá (d)	COP	6.030	2023	-	2,900,000	-	-	3,061	2,935	1,052	-	2,009	2,935
Banco BBVA Colombia	COP	6.100	2021	-	89,968	-	-	94	-	94	-	-	-
Citibank (f)	USD	5.000	2022	10,000	-	-	-	30,203	33,170	10,068	11,056	20,135	22,114
Banco Pichincha (e)	USD	8.950	2021	300	-	-	-	1,087	-	1,087	-	-	-
Banco Pichincha	USD	8.950	2020	500	-	-	-	-	1,659	-	1,659	-	-
Banco Scotiabank	PEN	3.000	2020	-	-	8,000	-	-	8,000	-	8,000	-	-
Banco Scotiabank	PEN	2.800	2020	-	-	7,000	-	-	7,000	-	7,000	-	-
Banco Scotiabank	PEN	3.000	2020	-	-	31,000	-	-	31,000	-	31,000	-	-
Banco de Crédito del Perú	PEN	3.100	2020	-	-	15,000	-	-	15,000	-	15,000	-	-
Banco Scotiabank (c)	PEN	1.180	2021	-	-	21,000	-	21,000	-	21,000	-	-	-
Banco de Crédito del Perú	PEN	1.070	2021	-	-	8,000	-	8,000	-	8,000	-	-	-
Banco de Crédito del Perú	PEN	0.820	2021	-	-	45,000	-	45,000	-	45,000	-	-	-
				10,800	2,989,968	493,900	-	350,188	351,450	167,244	119,658	182,944	231,792
Call Spread financing, Note 8													
Citibank N.A.	USD	6.473	2023	18,297	-	-	-	35,785	44,491	15,977	13,731	19,808	30,760
				18,297	-	-	-	35,785	44,491	15,977	13,731	19,808	30,760
Other obligations (h)													
Hewlett Packard S.A.	USD	2.930	2021	8,549	-	-	-	16,316	11,168	6,253	6,837	10,063	4,331
				8,549	-	-	-	16,316	11,168	6,253	6,837	10,063	4,331
Total				437,646	2,989,968	881,953	-	2,223,865	2,102,913	189,871	140,840	2,033,994	1,962,073

Notes to the interim consolidated financial statements (continued)

- (b) In May 2018, the Company issued debt instruments ("Notes") denominated in US Dollars through a private offer to institutional investors under Rule 144 A and Regulation S, for US\$400,000,000, equivalent to S/1,449,600,000 (equivalent to S/1,326,800,000 as of December 31, 2019) that accrues an interest of 5.375 percent annual, with a maturity of 5 years and with semiannual payments of interest and the principal in a single installment upon maturity of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 5.778 percent, after considering the respective up-front fees that amounted to US\$3,512,000 equivalent to approximately S/12,728,000 as of December 31, 2020 (US\$4,852,000 equivalent to approximately S/16,094,000 as of December 31, 2019).

Additionally, in May 2018, the Company issued debt instruments ("Notes") denominated in Soles for S/385,800,000 that bear an annual interest rate of 6.4375 percent, with a maturity of 7 years and with semiannual interest payments and the principal in a single installment upon maturity of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 6.559 percent, after considering the respective up-front fees that amounted to S/1,759,000 as of December 31, 2020 (S/2,093,000 as of December 31, 2019).

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

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

- (c) Scotiabank Perú
Química Suiza S.A.C.
It corresponds to one loan amounting to S/21,000,000 with maturity in January 2021. The annual accrued interest rate is 1.180 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/731,000 as of December 31, 2020 (893,000 as of December 31, 2019).

As of December 31, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/57,839,000 (S/34,704,000 as of December 31, 2019).

- (d) Banco de Bogota
Química Suiza Colombia S.A.S. (Formerly Quideca S.A.)
As of December 31, 2020, the company has financial obligations with Banco de Bogota for an amount of \$2,900,000 under an annual fixed interest rate of 6.030 percent, with maturity in October 2023, supported by promissory notes and guarantees granted to the bank.

Notes to the interim consolidated financial statements (continued)

- (e) Banco Pichincha
Vantive Cía Ltda.
It corresponds to one loan amounting to US\$300,000 with maturity in November 2021. The annual accrued interest rate is 8.950 percent annual.
- (f) 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.
- (g) 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/748,000 as of December 31, 2020 (S/913,000 as of December 31, 2019).
- As of December 31, 2020, InRetail Pharma S.A. amortized the debt for the amount of S/57,839,000 (S/34,704,000 as of December 31, 2019).
- (h) Corresponds to the debt acquired with Hewlett Packard S.A., for the purchase and leasing of computer equipment. These contracts do not have specific guarantees.
- (i) During the twelve-month period ended December 31, 2020 and 2019, loans and borrowings accrued interests which are recorded in the "Financial expenses" caption of the consolidated income statement, see Note 18. Also, as of December 31, 2020 and December 31, 2019, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (j) 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, 2020 and December 31, 2019, standard clauses do not limit the normal operation of the InRetail Pharma Group and have been fulfilled.

- (k) Financial obligations are payable as follows:

	2020	2019
	S/ (000)	S/ (000)
2020	-	140,840
2021	189,871	76,184
2022	84,775	71,160
2023	1,492,184	1,361,829
2024 onwards	457,035	452,900
Total	2,223,865	2,102,913

Notes to the interim consolidated financial statements (continued)

14. Income tax

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

Statements of financial position	As of December 31, 2020		As of December 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
InRetail Pharma S.A.	25,882	-	-	5,143
Eckerd Amazonia S.A.C.	861	-	510	-
Boticas del Oriente S.A.C.	673	-	490	-
Química Suiza S.A.C.	-	48,915	-	39,108
Cifarma S.A.C.	852	-	715	-
Vanttive S.A.C.	46	-	28	-
Droguería InRetail Pharma S.A.C.	1,793	-	-	-
Quicorp S.A.	931	-	248	-
Quifatex S.A.	8,201	-	5,400	-
Vanttive Cia Ltda.	101	-	73	-
Farmacías Peruanas S.A.C.	136	-	-	-
Quimiza Ltda.	766	-	702	-
Química Suiza Colombia S.A.S. (formerly Quideca S.A.)	766	-	761	-
Mifarma S.A.C.	26,337	-	15,823	-
Albis S.A.C.	16,047	-	19,699	-
Jorsa de la Selva S.A.C.	1,495	-	1,760	-
Mifarma S.A. (Bolivia)	-	-	84	-
Consolidation adjustment	-	157,601	-	196,511
Total	84,887	206,516	46,293	240,762

Statements of comprehensive income	Income tax for the twelve-month period ended December 31, 2020 and 2019	
	2020	2019
	S/(000)	S/(000)
Current	(198,285)	(162,776)
Deferred	56,827	18,377
Income tax expense	(141,458)	(144,399)

- (b) As of December 31, 2020 and December 31, 2019, the liability for income tax, net of the advanced tax, amounted to approximately S/72,855,000 and S/21,907,000, respectively. Also, as of December 31, 2020 and December 31, 2019, the income tax credit amounted to approximately S/77,854,000 and S/31,955,000, respectively.

Notes to the interim consolidated financial statements (continued)

15. Equity

(a) Capital stock

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

(b) Capital Premium

Corresponds to cash contributions for a total amount of approximately S/4,182,000. In accordance with the agreements of the General Shareholders Meetings of July 2008, an amount of S/791,000 was recorded as capital stock and the difference of approximately S/3,391,000 was recorded as a capital premium, which is presented in the caption "Capital premium" in the consolidated statement of financial position.

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

(c) Legal reserve

As of December 31, 2020 and December 31, 2019, this caption includes the legal reserve established by the Company and its Subsidiaries. As provided in the General Corporations Law, it is required that a minimum of 10 percent of distributable income for each year is transferred to a legal reserve until such reserve equals 20 percent of the capital. The legal reserve can absorb losses or be capitalized, in both cases it must be replenished. The legal reserve is appropriated when the General Shareholders' Meeting approves it.

(d) Distribution of dividends

At the General Shareholders' Meetings of InRetail Pharma S.A. held on February 10, 2020, April 30, 2020, August 27, 2020 and December 21, 2020, dividend distributions for a total of S/209,362,000 were approved.

At the General Shareholders' Meeting on April 1, 2019 and October 1, 2019, it was approved to distribute dividends of S/138,130,000.

16. Tax Situation

- (a) The Company and its Subsidiaries domiciled in Peru, Ecuador, Bolivia y Colombia, are subject to the tax regime of each country and calculate the income tax based on their individual financial statements. As of December 31, 2020 and December 31, 2019, the income tax rate was:

Country	%
Perú	29.5
Ecuador	25.0
Bolivia	25.0
Colombia	33.0

Notes to the interim consolidated financial statements (continued)

(b) Entities and individuals not domiciled in Peru must pay an additional tax over dividends received. In this regard, attention to Legislative Decree N° 1261, the additional tax on dividend income generated is as follows:

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

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

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

- (i) In first place, 10 percent or more of shares of the non domiciled company must be sold in a period of twelve months.
- (ii) In second place, the market value of the Peruvian company's shares must represent 50 percent or more of the market value of the non domiciled 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, 2020 and December 31, 2019.

(e) The tax authority is legally entitled to review and, if necessary, adjust the Income Tax computed. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Pharma S.A. incorporated in Peru and foreign:

	Income Tax	Value added tax
InRetail Pharma S.A.	From 2015 to 2020	From 2015 to 2020
Eckerd Amazonía S.A.C.	From 2015 to 2020	From 2015 to 2020
Boticas del Oriente S.A.C.	From 2015 to 2020	From 2015 to 2020
Quicorp S.A.	From 2015 to 2020	From 2015 to 2020
Química Suiza Comercial S.A.C.	From 2015 to 2018	From 2015 to 2018
Vanttive S.A.C.	From 2015 to 2020	From 2015 to 2020
Cifarma S.A.C.	From 2015 to 2020	From 2015 to 2020
Vanttive Cía Ltda.	From 2016 to 2020	From 2016 to 2020
Química Suiza S.A.C.	From 2017 to 2020	From 2016 to 2020
Quifatex S.A.	From 2016 to 2020	From 2016 to 2020
Química Suiza Colombia S.A.S. (formerly Quideca S.A.)	From 2013 to 2020	From 2013 to 2020
Patrimonio Fideicomiso Mercantil de acciones Quifatex S.A.	From 2018 to 2019	From 2018 to 2019
Quimiza Ltda.	From 2013 to 2020	From 2013 to 2020
Jorsa de la Selva S.A.C.	From 2015 to 2020	From 2015 to 2020
Mifarma S.A.C.	From 2017 to 2020	From 2015 to 2020
Albis S.A.C.	From 2016 to 2020	From 2016 to 2020
Droguería InRetail Pharma S.A.C.	From 2019 to 2020	From 2019 to 2020
Farmacias Peruanas S.A.C.	2020	2020
Botica Torres de Limatambo S.A.C.	From 2015 to 2018	From 2015 to 2018
Droguería La Victoria S.A.C.	From 2015 to 2018	From 2015 to 2018
Superfarma Mayoristas S.A.C.	From 2016 to 2019	From 2016 to 2019
Farmacias Peruanas S.A.	From 2017 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 advisor's opinion, any eventual additional tax settlement would not be significant to the consolidated financial statements as of December 31, 2020 and December 31, 2019.

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

	As of December 31, 2020	As of December 31, 2019
	S/(000)	S/(000)
Albis S.A.C.	39,395	55,494
Jorsa de la Selva S.A.C.	-	1,959
Quicorp S.A	3,155	3,414
Vanttive S.A.C.	-	1
Total	<u>42,550</u>	<u>60,868</u>

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

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

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

Notes to the interim consolidated financial statements (continued)

17. Operating expenses

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

	2020 S/(000)	2019 S/(000)
Cost of sales	4,992,245	4,722,550
Selling expenses	1,271,772	1,279,397
Administrative expenses	287,583	238,044
Total	6,551,600	6,239,991

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

	2020			
	Cost of sales S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	Total S/(000)
Initial balance of goods, Note 6 (a)	997,569	-	-	997,569
Initial balance of raw material, Note 6 (a)	15,204	-	-	15,204
Initial balance of supplies, Note 6 (a)	1,008	-	-	1,008
Initial balance of finished goods, Note 6 (a)	189	-	-	189
Purchase of goods and supplies	4,958,775	-	-	4,958,775
Final balance of goods, Note 6 (a)	(1,036,336)	-	-	(1,036,336)
Final balance of raw materials, Note 6 (a)	(19,552)	-	-	(19,552)
Final balance of supplies, Note 6 (a)	(550)	-	-	(550)
Final balance of finished goods, Note 6 (a)	(455)	-	-	(455)
Impairment of inventories, Note 6 (c)	9,998	-	-	9,998
Factory overhead	30,122	-	-	30,122
Personnel expenses	-	584,468	202,326	786,794
Depreciation, Note 9 (d)	6,187	54,045	6,600	66,832
Depreciation of right-of-use asset, Note 12 (b)	4,801	217,964	5,245	228,010
Amortization, Note 10 (d)	419	51,137	7,116	58,672
Services provided by third parties (b)	-	215,661	42,853	258,514
Advertising	-	36,390	4	36,394
Packing and packaging	-	10,142	978	11,120
Rental of premises	1,151	30,438	813	32,402
Taxes	-	8,683	5,914	14,597
Provision for doubtful trade receivables, Note 5(d)	-	8,827	-	8,827
Provision for doubtful other account receivables	-	1,317	-	1,317
Recoveries of provision trade account receivables, Note 5(d)	-	(1,482)	(32)	(1,514)
Recovery of provision other account receivables	-	(4)	(16)	(20)
Insurance	-	10,524	924	11,448
Other charges (c)	23,715	43,662	14,858	82,235
Total	4,992,245	1,271,772	287,583	6,551,600

Notes to the interim consolidated financial statements (continued)

	2019			Total S/(000)
	Cost of sales S/(000)	Selling expenses S/(000)	Administrative expenses S/(000)	
Initial balance of goods	1,022,755	-	-	1,022,755
Initial balance of raw material	11,796	-	-	11,796
Initial balance of supplies	1,075	-	-	1,075
Initial balance of finished goods	672	-	-	672
Purchase of goods	4,612,874	-	-	4,612,874
Final balance of goods, Note 6(a)	(997,569)	-	-	(997,569)
Final balance of raw materials, Note 6(a)	(15,204)	-	-	(15,204)
Final balance of supplies, Note 6(a)	(1,008)	-	-	(1,008)
Final balance of finished goods, Note 6(a)	(189)	-	-	(189)
Impairment of inventories, Note 6(c)	7,211	-	-	7,211
Factory overhead	27,790	-	-	27,790
Personnel expenses	-	585,310	159,718	745,028
Depreciation, Note 9(d)	4,330	59,629	8,112	72,071
Depreciation of right-of-use asset, Note 12(b)	5,255	220,216	5,944	231,415
Amortization, Note 10(d)	73	35,365	4,220	39,658
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 5(d)	-	5,107	61	5,168
Provision for doubtful other account receivables	-	75	340	415
Recovery of provision for doubtful other account receivables	-	(964)	-	(964)
Recovery of provision for doubtful trade receivables, Note 5(d)	-	(157)	-	(157)
Insurance	-	11,803	901	12,704
Other charges (c)	42,689	34,347	10,757	87,793
Total	4,722,550	1,279,397	238,044	6,239,991

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

(c) Mainly includes general expenses in stores.

18. Financial expenses

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

	2020	2019
	S/(000)	S/(000)
Interest on loans, borrowings and bonds payable	119,983	120,395
Interest on lease liability, Note 12(c)	44,137	51,887
Accrual of structuring cost of financial obligation	5,434	4,934
Interest from derivative instruments "Call Spread"	2,734	3,328
Premium accrual of "Call Spread"	12,623	11,129
Other financial expenses	5,558	10,191
Total	190,469	201,864

(b) As of December 31, 2020 and December 31, 2019, there are interest payable for these obligations for approximately S/19,087,000 and S/18,557,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.

Notes to the interim consolidated financial statements (continued)

19. Transactions with related parties

(a) The following table provides the total amount of transactions that have been entered into with related parties for the twelve-month period ended as of December 31, 2020 and 2019:

	2020 S/(000)	2019 S/(000)
Income		
Sales	33,385	33,737
Rendering of services	1,906	1,134
Interest income	3,065	2,156
Others	1,872	2,117
Total	40,228	39,144
Expenses		
Renting of premises and land	3,995	4,043
Reimbursement of expenses	8,175	4,462
Minor services	6,018	-
Interest	-	6,456
Others	11,661	4,413
Total	29,849	19,374

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

	As of December 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Receivables		
Real Plaza S.A.	39	-
Supermercados Peruanos S.A. (d)	6,662	7,834
Homecenters Peruanos S.A. (d)	214	138
Homecenters Oriente S.A.C.	10	13
InDigital S.A.C.	35	-
Tiendas Peruanas S.A.	23	-
Financiera Oh! S.A.	510	767
Plaza Ve a Oriente S.A.C. (d)	181	225
Other	261	-
Total	7,935	8,977

Notes to the interim consolidated financial statements (continued)

	As of December 31, 2020	As of December 31, 2019
	S/(000)	S/(000)
Payables		
Homecenters Peruanos S.A.	155	17
InRetail Perú Corp.	46	-
Plaza Veá Oriente S.A.C.	21	-
Financiera Oh! S.A.	454	685
InDigital S.A.C.	179	-
Homecenters Oriente S.A.C.	1	-
Centro Comercial Estación Central S.A.	1	16
Real Plaza S.A.	272	78
Inmobiliaria Puerta del Sol S.A.	99	-
Supermercados Peruanos S.A.	1,164	1,555
IR Management S.R.L.	458	668
InRetail Consumer	-	701
Interproperties Perú	953	-
IR Digital S.A.C.	51	-
Other	227	255
Total	4,081	3,975
Remunerations payable to key management	-	-
Total	4,081	3,975

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

- (c) Outstanding balances at period-end are unsecured and interest free, except for the financial obligations explained in this note. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2020 and December 31, 2019, the InRetail Pharma Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.
- (d) Corresponds to the balances pending for the sale of goods of Química Suiza S.A.C. as of December 31, 2020.
- (e) In April and May 2020, the Company granted two loans to InRetail Consumer of S/91,000,000 and S/20,000,000, which accrue interest of 4.04 and 4.18 percent annually and mature in March and May 2021, respectively. In December 2020, the company collected the two loans in advance.
- (f) The compensation of key management personnel of the InRetail Pharma Group for the twelve-month period ended December 31, 2020 and 2019, is detailed below:

	2020	2019
	S/(000)	S/(000)
Short term employee benefits	30,529	24,545
Insurance and medical benefits	43	78
Employment benefits for contract termination	1,048	1,884
Total	31,620	26,507

Notes to the interim consolidated financial statements (continued)

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

	2020 S/(000)	2019 S/(000)
Banco Internacional del Peru – Interbank S.A.A.	199,354	338,159
Inteligo Bank Ltd.	-	976

20. Earnings per share

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

The following reflects basic and diluted earnings per share computations:

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 1, 2019	15,839,379	360	15,839,379
Number as of December 31, 2019	15,839,379		15,839,379
Number as of January 1, 2020	15,839,379	360	15,839,379
Number as of December 31, 2020	15,839,379		15,839,379
	For the twelve-months period ended December 31, 2020		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	282,561,000	15,839,379	17.839
	For the twelve-months period ended December 31, 2019		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	294,645,000	15,839,379	18.602

Notes to the interim consolidated financial statements (continued)

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

21. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of December 31, 2020, the Company and its Subsidiaries agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/53,844,000, US\$2,812,000 and B\$104,000 (S/61,211,000, US\$6,352,000 and B\$646,000 as of December 31, 2019), respectively, to comply with the payment of goods purchased to foreign suppliers.

Contingencies –

- (a) Eckerd Amazonía S.A.C. is in the process of claim against the Tax Authority for determinations of debts and fines related to VAT for the period between January 2003 and September 2005. In opinion of Management and its legal advisors these contingencies are stated as possible and significant liabilities will not arise as result of this contingency as of December 31, 2020 and December 31, 2019.
- (b) InRetail Pharma S.A. maintains certain labor claims for approximately S/2,322,000, mainly related to compensation for arbitrary dismissal, non-payment of social benefits, and reinstatements in the work place, among others. In Management's opinion and its legal advisors, these must be resolved favorably for InRetail Pharma S.A.; consequently, it is not necessary to record additional liabilities for these items.
- (c) Mifarma S.A.C.
 - The Peruvian Tax Administration (SUNAT) has some objections related to the tax base for income tax and value added tax for the years 2001, 2003, 2008, 2009, 2011, 2012, 2013, 2014 and 2015 for the amount of S/15,835,000. Mifarma S.A.C. has filed a judicial claim before the Tax Court to annul the objection.

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

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

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

Notes to the interim consolidated financial statements (continued)

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

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

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

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

22. Business segments

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

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

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

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

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

	Pharmacies S/(000)	Manufacturing, Distribution and Marketing S/(000)	Total segments S/(000)	Holding accounts, consolidation adjustments and intercompany eliminations S/(000)	Consolidated S/(000)
For the twelve-month period ended December 31, 2020					
Revenue					
External income	5,297,283	1,894,200	7,191,483	-	7,191,483
Inter-segment	35,731	630,905	666,636	(666,636)	-
Total revenue	5,333,014	2,525,105	7,858,119	(666,636)	7,191,483
Cost of sales	(3,418,225)	(1,574,020)	(4,992,245)	-	(4,992,245)
Inter-segment	(25,989)	(636,051)	(662,040)	662,040	-
Gross profit	1,888,800	315,034	2,203,834	(4,596)	2,199,238
Selling expenses	(1,062,312)	(174,375)	(1,236,687)	(35,085)	(1,271,772)
Administrative expenses	(214,081)	(75,363)	(289,444)	1,861	(287,583)
Other operating income, net	9,817	(334)	9,483	-	9,483
Operating profit	622,224	64,962	687,186	(37,820)	649,366
Exchange difference, net	(43,857)	(652)	(44,509)	-	(44,509)
Financial income	102,463	94,981	197,444	(187,813)	9,631
Financial expenses	(182,529)	(17,219)	(199,748)	9,279	(190,469)
Profit before income tax	498,301	142,072	640,373	(216,354)	424,019
Income tax expense	(124,193)	(17,153)	(141,346)	(112)	(141,458)
Profit for the year	374,108	124,919	499,027	(216,466)	282,561
Attributable to:					
Owners of the parent	374,108	124,919	499,027	(216,466)	282,561
Non-controlling interests	-	-	-	-	-
Net profit	374,108	124,919	499,027	(216,466)	282,561

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, 2019					
Revenue					
External income	5,031,012	1,820,642	6,851,654	-	6,851,654
Inter-segment	3,049	644,200	647,249	(647,249)	-
Total revenue	5,034,061	2,464,842	7,498,903	(647,249)	6,851,654
Cost of sales	(3,232,237)	(1,490,313)	(4,722,550)	-	(4,722,550)
Inter-segment	(3,004)	(631,544)	(634,548)	634,548	-
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)	(6,524)	(1,279,397)
Administrative expenses	(170,528)	(70,211)	(240,739)	2,695	(238,044)
Other operating income (expenses), net	2,754	4,016	6,770	(1,332)	5,438
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
Finance 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

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

Geographic information-

As of December 31, 2020 and December 31, 2019, the operations of all the Company's subsidiaries are mainly carried out in Peru; with income and assets from abroad not being significant at those dates.

23. Fair value

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

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

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

(a) Financial instruments whose fair value is similar to book value

Assets and liabilities that are liquid or have short maturities (less than three month), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments. Also, the derivative instrument by the InRetail Pharma Group is recorded at fair value.

(b) Fixed-rate financial instruments

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

(c) Investment at fair value through equity

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

Notes to the interim consolidated financial statements (continued)

Fair value hierarchy

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

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

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

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

The InRetail Pharma Group does not maintain any financial instrument with fair value determination under level 3 and there were no transfers between levels during the twelve-month period ended December 31, 2020 and 2019. The InRetail Pharma Group maintains the following financial instruments at fair value:

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

24. Transactions in foreign currency

The financial statements have been stated in Soles using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2020 the end of period exchange rates in the market for transactions in US Dollars were S/3.618 per US\$1.00 bid and S/3.624 per US\$ 1.00 ask (S/3.311 and S/3.317 per US\$1.00 for bid and ask as of December 31, 2019).

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

Exchange rate per Soles	2020	2019
U. S. Dollars (US\$)	0.276	0.302
Bolivian Peso (B\$)	1.921	2.029
Colombian Peso (\$)	947.158	990.246

Notes to the interim consolidated financial statements (continued)

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

	As of December 31, 2020			As of December 31, 2019		
	US\$(000)	b\$ (000)	\$(000)	US\$(000)	b\$ (000)	\$(000)
Assets						
Cash and short-term deposits	17,158	18,278	621,811	11,769	6,669	679,864
Investments at fair value through equity	14,942	-	-	13,722	-	-
Trade receivables, net	57,308	47,684	9,054,828	51,762	45,088	9,833,962
Other accounts receivables, net	4,086	4,732	-	5,000	4,632	-
Accounts receivable from related parties	-	-	-	81	-	-
Total assets	93,494	70,694	9,676,639	82,334	56,389	10,513,826
Liabilities						
Trade payables	(81,676)	(16,909)	(4,310,221)	(61,703)	(28,498)	(5,484,008)
Other payables	(8,671)	(8,111)	-	(11,830)	(13,089)	-
Accounts payable to related parties	(13)	-	-	-	-	-
Lease liability	(93,939)	(1,983)	-	(110,102)	(540)	-
Interest - bearing loans and borrowings	(417,379)	-	(2,989,968)	(422,428)	-	(3,600,000)
Total Liabilities	(601,678)	(27,003)	(7,300,189)	(606,063)	(42,127)	(9,084,008)
Call Spread	400,000	-	-	400,000	-	-
Net (liability) assets position	(108,184)	43,691	2,376,450	(123,729)	14,262	1,429,818

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

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

25. Subsequent event

- (a) On January 26th 2021, the government of Peru announced new quarantine measures for the country to contain the virus, applying different measures in each region according to four different alert levels: extremely, very high, high and moderate. Measures were initially applicable for 15 days, from January 31st 2021 to February 15th 2021, but were extended to February 28th 2021. On February 24, 2021, the government of Peru announced the lifting of the quarantine measures in the country from March 1, 2021 to March 14, 2021.

This restriction on opening a business does not affect essential activities such as the supply of pharmaceutical products.

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

- (b) On January 22, 2021, the Company sold its shares in Química Suiza Colombia S.A.S. for US\$1,958,000 equivalent to S/7,092,000.

26. Additional explanation for English translation

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