

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated financial statements as of March 31, 2019 (unaudited) and December 31, 2018 (audited) and for the three-month periods ended as of March 31, 2019 and 2018.

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Interim consolidated statements of financial position

As of March 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 cash equivalents	4	82,731	26,981	Trade payables	14	43,021	46,044
Investments at fair value through equity	5	162,287	130,895	Other liabilities	15	87,554	59,012
Investments at fair value through profit or loss	6	2,528	11,664	Accounts payable to related parties	25	1,605	1,696
Trade receivables, net	7	25,651	26,290	Current portion financial obligations	16	33,830	40,827
Other receivables	8	23,255	24,934	Lease liability	3.3	26,532	-
Accounts receivables from related parties	25	30,970	37,431	Total current liabilities		192,542	147,579
Prepaid expenses	9	3,388	1,043				
Recoverable taxes	10	9,296	22,206	Trade payables	14	9,578	8,910
Total current assets		340,106	281,444	Other liabilities	15	10,407	10,078
Non-current assets				Income tax related to special purpose entity	24(e)	303,147	278,534
Accounts receivables from related parties	25	410,019	410,740	Lease liability	3.3	115,414	-
Deferred income tax, net	17	1,822	1,822	Long-term financial obligations	16	1,757,637	1,754,213
Recoverable taxes	10	12,680	2,832	Deferred income tax liabilities, net	17	31,034	30,787
Facilities, furniture and equipment, net	11	150,606	8,104	Total non-current liabilities		2,227,217	2,082,522
Investment properties	12	3,731,196	3,671,315	Total liabilities		2,419,759	2,230,101
Intangible assets		4,505	4,428	Equity			
Derivative financial instrument	13	78,250	77,257	Capital stock	19	1,475,706	1,475,706
Other assets		96	96	Unrealized results		35,265	(8,717)
Total non-current assets		4,389,174	4,176,594	Retained earnings		798,550	760,948
				Total equity		2,309,521	2,227,937
Total assets		4,729,280	4,458,038	Total liabilities and equity		4,729,280	4,458,038

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income

For the three-month periods ended as of March 31, 2019 and 2018

	Note	2019 S/(000)	2018 S/(000)
Rental income	20	86,941	83,766
Cost of rental income	21	(11,704)	(11,381)
Net rental income		75,237	72,385
Income from management services	20	40,336	38,321
Cost related to income from management services	21	(30,658)	(27,875)
Net management service		9,678	10,446
Gross profit		84,915	82,831
Fair value adjustment for investment properties	12(b)	3,174	3,077
Administrative expenses	22	(7,292)	(7,992)
Selling expenses	22	(1,855)	(1,755)
Other operating income (expenses), net		245	1,968
Operating profit		79,187	78,129
Financial income	23	7,451	2,458
Financial expenses	23	(35,176)	(44,442)
Exchange difference, net	26(a)(ii)	2,451	7,975
Profit before income tax		53,913	44,120
Income tax	17(a)	(16,311)	(11,436)
Net profit		37,602	32,684
Earnings per share:			
Basic and diluted profit for the period attributable to ordinary equity holders of the parent	19(b)	0.066	0.058

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of other comprehensive income

For the three-month periods ended as of March 31, 2019 and 2018

	2019	2018
	S/(000)	S/(000)
Profit for the period	37,602	32,684
Other comprehensive income		
Unrealized gain on investments at fair value through equity	31,393	1,889
Transfer of the unrealized investments at fair value through equity to results of the period	-	(1,289)
Income tax related to special purpose entities	(9,418)	(180)
Total other comprehensive income of investments at fair value through equity	21,975	420
Unrealized gain on hedging derivative financial instrument	22,305	-
Transfer of the un realized loss from derivative financial instrument to results of the period	-	10,008
Income tax related to special purpose entities	(298)	(8,440)
Total other comprehensive income of financial instrument	22,007	1,568
Other comprehensive income for the period, net of income tax effects	43,982	1,988
Total comprehensive income for the period	81,584	34,672

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity

For the three-month periods ended as of March 31, 2019 and 2018

	<u>Capital stock</u>	<u>Unrealized results</u>	<u>Retained earnings</u>	<u>Total</u>
	S/(000)	S/(000)	S/(000)	S/(000)
Balance as of January 1, 2018	1,475,706	3,706	637,600	2,117,012
Profit for the period	-	-	32,684	32,684
Other comprehensive income	-	1,988	-	1,988
Total comprehensive income	-	1,988	32,684	34,672
Others	-	-	-	-
Balance as of March 31, 2018	1,475,706	5,694	670,284	2,151,684
Balance as of January 1, 2019	1,475,706	(8,717)	760,948	2,227,937
Profit for the period	-	-	37,602	37,602
Other comprehensive income	-	43,982	-	43,982
Total comprehensive income	-	43,982	37,602	81,584
Others	-	-	-	-
Balance as of March 31, 2019	1,475,706	35,265	798,550	2,309,521

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows

For the three-month periods ended as of March 31, 2019 and 2018

	2019 S/(000)	2018 S/(000)
Operating activities		
Revenue	135,438	121,709
Payments of goods and services to suppliers	(37,063)	(37,772)
Payments of salaries and social benefits to employees	(8,196)	(4,213)
Taxes paid	(10,275)	(3,742)
Recovery of taxes	19,384	17,425
Other payments, net	(1,567)	(7,006)
Net cash flows from operating activities	97,721	86,401
Investing activities		
Collection of interest of loans granted to related parties	7,143	-
Sale of investments at fair value through profit or loss	42,575	161,436
Sale of investments at fair value through equity	-	21,630
Purchase of investments at fair value through profit or loss	(33,439)	-
Loans granted to related parties	-	(1,015)
Purchase of property, furniture and equipment	(51)	(194)
Purchase and development of intangible assets	(193)	(81)
Purchase of investment properties	(33,225)	(211,965)
Purchase of subsidiary	-	(2,080)
Value Added Tax payment related to investment properties	(5,981)	(5,754)
Net cash flows used in investing activities	(23,171)	(38,023)
Financing activities		
Payment of interest-bearing loans and borrowings	(8,602)	(12,204)
Payment of lease liability	(784)	-
Interest payment of lease liability	(2,253)	-
Interests paid	(6,316)	(44,499)
Other payments	(845)	-
Net cash flows used in financing activities	(18,800)	(56,703)
Net increase (decrease) of cash and short-term deposits	55,750	(8,325)
Cash and short-term deposits at the beginning of the period	26,981	54,422
Cash and short-term deposits at the end of the period	82,731	46,097
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	-	14
Investment properties purchased through leasing and other financial obligations	23,482	-
Initial recorded of Right-of-use asset	145,191	-

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the interim consolidated financial statements

Interim unaudited consolidated financial statements as of March 31, 2019 and December 31, 2018 (audited) and for the three-month periods ended as of March 31, 2019 and 2018.

1. Business activity

InRetail Real Estate Corp. (hereinafter “the Company”) is a holding entity incorporated in April 2012 in the Republic of Panama, subsidiary of InRetail Perú Corp. The latter is subsidiary of Intercorp Retail Inc., which in turn is a subsidiary of Intercorp Peru Ltd. (a holding company incorporated in The Bahamas, hereinafter “Intercorp Perú”), which is the ultimate holding Company of “Intercorp Peru Group” or the “Group”, which refers to Intercorp Perú and its subsidiaries.

As of March 31, 2019 and December 31, 2018 Intercorp Perú holds directly and indirectly 71.46 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

The Company’s legal address is 50 Street and 74 Street, floor 16 “PH” Building, San Francisco, Republic of Panama. However, its management and administrative offices are located at Av. Carlos Villarán N° 140, Urb. Santa Catalina, La Victoria, Lima, Perú.

The Company and its Subsidiaries, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-InRetail Shopping Malls, Patrimonio en Fideicomiso – D.S.N° 093-2002-EF-Interproperties Holding, Patrimonio en Fideicomiso –D.S.N° 093-2002-EF-Interproperties Holding II and Real Plaza S.R.L. (hereinafter and together, “InRetail Real Estate”), are dedicated to the operation of shopping malls as well as real estate development. InRetail Real Estate operations are concentrated in Perú.

In January 2018, The Company, through its subsidiary Real Plaza S.R.L. acquired 75.00 percent of the Centro Comercial Estación Central S.A . For the assets acquired, the Company paid S/2,080,000.

The consolidated financial statements as of March 31, 2019, were approved by the Board of Directors on May 9, 2019.

2. Subsidiaries activities

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

- (a) Patrimonio en Fideicomiso – D.S.N°093-2002-EF-InRetail Shopping Malls is a Special Purpose Entity (SPE) formed on July 2014, for the purpose of holding certificates of participation of Patrimonio en Fideicomiso – D.S.N°093-2002-EF-Interproperties Holding and Patrimonio en Fideicomiso – D.S.N°093—2002-EF-Interproperties Holding II and 100 percent of capital stock of Real Plaza S.R.L.

Notes to the interim consolidated financial statements (continued)

- (b) Patrimonio en Fideicomiso –D.S. N°093-2002-EF-Interproperties Holding and Patrimonio en Fideicomiso-D.S. N°093-2002-EF-Interproperties Holding II (hereinafter “Interproperties Holding” and “Interproperties Holding II”, respectively).

Interproperties Holding and Interproperties Holding II are two Special Purpose Entities (SPEs) formed for the purpose of holding the certificates of participation of Patrimonio en Fideicomiso –D.S. N° 093-2002-EF-Interproperties Perú (hereinafter “Interproperties Perú”), which is a trust fund formed with the purpose of holding the real estate assets of InRetail Real Estate to obtain the necessary funding for developing investment plans.

Additionally, Interproperties Holding II owns 100 percent as of March 31, 2019 and December 31, 2018 of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)
An entity focused on operating the shopping malls (21 as of March 31, 2019 and December 31, 2018) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

As of March 31, 2019 and December 31, 2018, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca, Pucallpa and Lima.

- (d) Centro Comercial Estación Central S.A.
Company dedicated to the management of the shopping center located in the central station of Metropolitan Buses.

3. Summary of significant accounting policies

3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2018 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

The interim consolidated financial statements have been prepared on a historical cost basis, except for investment properties, which have been measured at fair value. The interim consolidated financial statements are presented in Soles and all values are rounded to the nearest thousands of Soles (S/(000)), except where otherwise indicated.

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2018.

Notes to the interim consolidated financial statements (continued)

The consolidated financial statements include the financial statements of the Company and its subsidiaries, see note 2.

Subsidiaries are fully consolidated from the acquisition date, being the date on which InRetail Real Estate obtains control, and are consolidated until the date when such control ceases. The financial statements of the Subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, transactions and unrealized gains and losses resulting from intra group transactions have been eliminated in full.

The non-controlling interest has 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, the consolidated income statement and the consolidated statement of comprehensive income.

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 a subsidiary, without a loss of control, is accounted for as an equity transaction.

3.2 New standards and interpretations adopted by InRetail Real Estate

Several standards and amendments have come into effect from January 1, 2018; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of March 31 2019 and December 31, 2018 (audited).

IFRS 9 early implementation

The Company uses derivative instruments to manage its exposure to exchange rates. In order to manage these risks, the Company applies hedge accounting for transactions which meet specific criteria for this. At the beginning of the hedging relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge.

The accounting treatment is established according to the nature of the hedged item and the fulfillment of the criteria for coverage. The effective portion of these hedges are recorded in other comprehensive income and then transferred to the hedged item when they affect results. The ineffective portion and the time value of the options is amortized linearly over the life of the option and are recognized as interest expense.

In order for the time value of the options to be amortized linearly over the life of the option and avoid high volatility, the Company decided to adopt IFRS 9 in advance.

Notes to the interim consolidated financial statements (continued)

Standards adopted

The InRetail Real estate Group adopts the following standards and interpretations that have been issued by the IASB, and are effective as of January 1, 2018:

IFRS 15 “Revenue from Contracts with Customers”–

IFRS 15 was issued in May 2014 and established a five-step model that will apply to income arising from contracts with customers. Under IFRS 15, income is recognized for an amount that reflects the contractual consideration agreed with the customer. The principles in IFRS 15 provide a more structured approach to measure and recognize revenues.

The new standard on revenue is applicable to all entities and replaces all revenue recognition requirements under IFRS. Complete or modified retrospective application for annual periods beginning on January 1, 2017 is required and early adoption is permitted.

The adoption of IFRS 15 for the company and its subsidiaries did not have an impact on net equity as of January 1, 2018.

The revenues of the Company and its Subsidiaries correspond mainly to rental of commercial premises. The transfer of the benefit to customers is over time, given that the customer has the ability to direct its use and to receive the benefits derived from it during the period of the contract.

The other revenues, which are lower in relation to rental of premises, correspond mainly to marketing services, energy sales and other.

Considering this frame of reference, the analysis of the impacts of IFRS 15 to date, by type of income is as follows:

(a) Rental Service

The Company and its Subsidiaries provide various services, the main ones being rental of commercial premises, temporary rentals of commercial space in shopping centers, visual advertising services and transportation of goods. Consequently, in accordance with IFRS 15, the income from these services is recognized over time, as of the moment when the service starts.

The variable considerations for this performance obligation correspond mainly to the variable income specified in each contract. In this sense, IFRS 15 establishes that revenues will only be recognized if it can be demonstrated that there will be no significant reversions of income when estimating variable considerations; therefore, revenues will be recognized at the time they occur, given that the estimation of the variable consideration for the term of the contracts has a high degree of volatility.

(b) Other Income

The Company and its Subsidiaries generate other income mainly from marketing, energy sales and other services. In accordance with IFRS 15, the variable considerations corresponding to this type of performance obligations are considered by the Management at the time when the recognition of income is given.

Notes to the interim consolidated financial statements (continued)

IFRS 16 "Leasing"

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 if IFRS 15 "Revenue from contracts with customers" is also applied, and is effective for fiscal years beginning January 1, 2019.

As of the date of the consolidated financial statements, the implementation of this standard in the InRetail Real Estate Group has increased the asset in S/145,191,000, generated a higher depreciation expense of S/1,916,000 and a higher financial expense of S/2,253,000.

As of the date of the consolidated financial statements, the implementation of this standard, has also increased the lease liability in S/145,191,000, it has been amortized S/784,000, and has decreased by exchange difference S/2,461,000, generating an ending balance as of March 31, 2019 of S/141,946,000.

Likewise, the cost of rental income presents a decrease of S /3,037,000.

3.3 Significant estimations and assumptions

InRetail Real Estate's Management has used certain estimates and assumptions for the preparation of the interim consolidated financial statements, such as the method of depreciation, useful lives and residual values of facilities, furniture and equipment, fair value of investment properties, impairment of non-financial assets and taxes estimation; therefore, the final results could differ from the amounts recorded by InRetail Real Estate.

4. Cash and cash equivalent

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

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Cash	40	37
Current accounts (b)	76,991	26,944
Time deposits (c)	5,700	-
Total	82,731	26,981

(b) The current accounts comprise accounts in Soles and US Dollars, in local financial institutions, free of liens, unrestricted and do not bear interests.

(c) As of March 31, 2019, time deposits are unrestricted, maintained in Soles in local financial institutions, have maturities up to one month since its inception and bear annual interests between 2.75 and 2.80 percent.

(d) As of March 31, 2019 and December 31, 2018, correspond to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú in favor of Interproperties Holding II, see note 16 (e), in compliance with the contract of management and security trust.

Notes to the interim consolidated financial statements (continued)

5. Investments at fair value through equity

As of March 31, 2019, the Company has other investments at fair value through equity for an amount of US\$48,867,000 equivalent to S/162,287,000 (US\$38,738,000 equivalent to S/130,895,000 as of December 31, 2018).

6. Investments at fair value through profit or loss

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

Entity	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Mutual funds managed by Sura S.A. SAF	2,528	11,664
Total	2,528	11,664

As of March 31, 2019 and December 31, 2018, these mutual funds have been invested in a portfolio of financial instruments issued by renowned financial institutions of the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

7. Trade receivables, net

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

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Rents receivable (b)	17,673	17,975
Unbilled services (c)	14,669	15,079
Documents receivable	<u>1,912</u>	<u>1,815</u>
Total trade receivables	34,254	34,869
Allowance for doubtful accounts (e)	<u>(8,603)</u>	<u>(8,579)</u>
Total trade receivables, net	25,651	26,290

(b) As of March 31, 2019 and December 31, 2018, trade accounts receivable are denominated in Soles and US Dollars, have current maturities and do not accrue interest.

Notes to the interim consolidated financial statements (continued)

(c) As of March 31, 2019 and December 31, 2018, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.

(d) As of March 31, 2019 and December 31, 2018 the analysis of trade receivables is as follows:

	Balance as of March 31, 2019		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Unbilled services	14,669	-	14,669
Past-due			
From 1 to 90 days	10,163	-	10,163
From 91 to 120 days	744	133	877
From 121 to 180 days	55	148	203
From 181 to 270 days	20	451	471
More than 271 days	-	7,871	7,871
Total	25,651	8,603	34,254

	Balance as of December 31, 2018		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Unbilled services	15,079	-	15,079
Past-due			
From 1 to 90 days	10,745	75	10,820
From 91 to 120 days	239	154	393
From 121 to 180 days	155	379	534
From 181 to 270 days	53	725	778
More than 271 days	19	7,246	7,265
Total	26,290	8,579	34,869

Past-due trade accounts receivable mainly correspond to tenants, who hold current contracts at the date of this report and operate in the shopping malls. Likewise, the past-due accounts which have a payment agreement are considered as not impaired; therefore they do not represent risk of uncollectibility.

Notes to the interim consolidated financial statements (continued)

- (e) The movement of the provision for impairment as of March 31, 2019 and 2018 is as follows:

	2019 S/(000)	2018 S/(000)
Balance at the beginning of the year	8,579	6,021
Provision recognized as period expense, note 22(b)	178	246
Recoveries, note 22(b)	(152)	(167)
Exchange difference	(2)	-
Balance at the end of the period	8,603	6,100
Balance as of December 31, 2018		8,579

In the opinion of InRetail Real Estate's Management, the provision for impairment appropriately covers the credit risk as of March 31, 2019 and December 31, 2018.

8. Other receivables

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

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
By type:		
Outstanding advances (b)	2,724	3,357
Fund retained - Banco de la Nación (c)	16,346	15,435
Others	4,185	6,142
Total	23,255	24,934

- (b) As of March 31, 2019 and December 31, 2018, correspond to advances given to suppliers related to projects for the investments properties.
- (c) In accordance with Superintendence Resolution N°183-2004/SUNAT, funds held in Banco de la Nación must be used exclusively for the payments of tax debts, or it is possible to request a cash reimbursement. In the case of the Company and its Subsidiaries, these funds have been used entirely for tax payments.
- (d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of March 31, 2019 and December 31, 2018, as no credit risk has been identified.

Notes to the interim consolidated financial statements (continued)

9. Prepaid expenses

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

	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Insurance paid in advance (b)	123	98
Municipal taxes prepaid (c)	2,047	-
Others	1,218	945
Total	3,388	1,043

(b) Corresponds mainly to insurance payments on properties of the Company and its Subsidiaries.

(c) Corresponds mainly to municipal prepaid taxes on properties.

10. Recoverable taxes

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

	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
By type:		
Tax credit for value-added-tax (b)	17,236	20,315
Income tax payment	3,827	3,822
Others	913	901
Total	21,976	25,038
By term:		
Current	9,296	22,206
Non-current	12,680	2,832
Total	21,976	25,038

(b) Corresponds to the tax credit for value-added-tax originated mainly from the development and construction of the shopping malls of Lima and provinces, as well as from other payments related to the operations of Interproperties Holding and Interproperties Holding II (SPE's). In the opinion of InRetail Real Estate's Management, this tax credit will be recovered off-setting it against the balances payable of said tax generated mainly by the rental income from InRetail Real Estate's properties.

Notes to the interim consolidated financial statements (continued)

11. Facilities, furniture and equipment, net

(a) The movement of cost and accumulated depreciation is presented below:

	Right-of-use asset S/(000)	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Equipment miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
Cost							
Balance as of January 1, 2019	-	5,922	4,215	696	11,698	365	22,896
First-time adoption of IFRS 16	145,191	-	-	-	-	-	145,191
Additions	-	14	1	-	28	8	51
Balance as of March 31, 2019	145,191	5,936	4,216	696	11,726	373	168,138
Accumulated depreciation							
Balance as of January 1, 2019	-	4,227	3,140	281	7,144	-	14,792
Depreciation of the period, Note 21(a) and 22(b)	1,916	283	69	35	437	-	2,740
Balance as of March 31, 2019	1,916	4,510	3,209	316	7,581	-	17,532
Net cost as of March 31, 2019	143,275	1,426	1,007	380	4,145	373	150,606
Net cost as of December 31, 2018	-	1,695	1,075	415	4,554	365	8,104

- (b) As of March 31, 2019 and December 31, 2018, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.
- (c) As of March 31, 2019 and December 31, 2018, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on those assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

12. Investment properties

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

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Real Plaza Salaverry shopping mall (i)	470,561	468,989
Real Plaza Puruchuco project	369,487	328,796
Real Plaza Chiclayo shopping mall	279,906	273,260
Real Plaza Cuzco shopping mall (i)	267,590	265,564
Real Plaza Piura shopping mall	243,112	241,128
Real Plaza Centro Cívico shopping mall (i)	236,047	235,604
Real Plaza Primavera shopping mall	228,939	226,960
Real Plaza Trujillo shopping mall	217,874	212,241
Real Plaza Pucallpa shopping mall	169,146	167,717
Real Plaza Huancayo shopping mall (i)	167,920	167,370
Real Plaza Huánuco shopping mall (i)	121,671	120,781
Real Plaza Santa Clara shopping mall	117,060	116,567
Real Plaza Pro shopping mall	109,624	109,199
Real Plaza Cajamarca shopping mall	98,800	98,442
Real Plaza Juliaca shopping mall (i)	95,832	95,917
Real Plaza Arequipa shopping mall (i)	77,605	80,820
Real Plaza Chorrillos shopping mall	78,553	77,922
Real Plaza Sullana shopping mall	52,100	52,362
Real Plaza Nuevo Chimbote shopping mall	43,674	42,986
Jiron de la Unión	18,750	18,604
Others (ii)	266,945	270,086
Total	3,731,196	3,671,315

(i) For the construction of these shopping malls and properties, surface rights contracts were subscribed with the Arzobispado de Cuzco (on land in Cusco “San Antonio”), Municipalidad provincial de Huánuco (on land of “Real Plaza Huánuco” shopping mall), Oficina de Normalización Provisional – ONP (Centro Cívico), Ferrovías Central Andina S.A. (Huancayo), the Association denominated “Religiosas del Sagrado Corazón de Jesús” (Arequipa), Ferrocarril Trasandino S.A. (Juliaca), and the Marina de Guerra del Perú (Salaverry). The terms of these contracts range from 20 to 70 years.

(ii) Corresponds mainly to lands on which real estate projects will be developed, mainly shopping malls branded “Real Plaza”. In the opinion of InRetail Real Estate’s Management the book values of these investment properties do not differ significantly from their fair values as of March 31, 2019 and as of December 31, 2018.

“Real Plaza” shopping malls comprise a hypermarket, department store, commercial premises, a cinema complex and entertainment zone for which there have been subscribed contracts that include minimum monthly fixed rental payments and variable rent based on the retail sales of the tenants.

Notes to the interim consolidated financial statements (continued)

(b) The movement of this caption for the three-month period ended as of March 31, 2019 and 2018 is as follows:

	2019 S/(000)	2018 S/(000)
Balance at the beginning of the year	3,671,315	3,202,400
Subsidiary acquisition	-	2,798
Additions	56,707	211,965
Disposal	-	(8,458)
Fair value adjustment	3,174	3,077
Balance at the end of the period	3,731,196	3,411,782
Balance as of December 31, 2018		3,671,315

The fair value of the investment properties has been determined by InRetail Real Estate's Management on the basis of the discounted cash flows method and/or by the value assigned by an independent appraiser in the case of the land of investment properties under construction and for those held to operate in the future. The valuation is prepared on an aggregate and deleveraged basis. In order to estimate the fair value of investment properties, Management has used its market knowledge and professional judgment.

13. Derivative financial instrument

As of March 31, 2019 and as of December 31, 2018, this item comprises 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 US\$(000)	Due	Pay fix at %	Book value of the hedged item	Fair value 2019 S/(000)	Fair value 2018 S/(000)
J.P. Morgan (a)	350,000	April 2028	1.05	1,162,350	78,250	77,257
Total					78,250	77,257

Notes to the interim consolidated financial statements (continued)

- (a) In March 2018, Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls, Subsidiary of the Company, decided to carry out hedging operations through a Foreign Currency Call Spread for the financial obligations it holds for the "Senior Unsecured Notes", that were issued in April 2018, between the contract date of the Call Spread and the date of issuance of the bond, this contract was registered as a trading instrument. From the date of issue of the "Senior Unsecured Notes" for the purposes of IFRS 9, it was classified as an effective hedging instrument.

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

14. Trade payables

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

	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Bills payable to third parties (b)	43,901	45,124
Provision of services unbilled (c)	8,698	9,830
Total	52,599	54,954
By term:		
Current	43,021	46,044
Non current	9,578	8,910
	52,599	54,954

- (b) As of March 31, 2019 and December 31, 2018, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Soles and US Dollars, do not accrue interests and their maturities don't exceed the current period.
- (c) Correspond to provisions for services received but unbilled by suppliers, mainly from services provided by construction companies in the last quarter of the period. In the opinion of InRetail Real Estate's Management, provisions are enough to fulfill the liabilities once they are billed.

Notes to the interim consolidated financial statements (continued)

15. Other liabilities

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

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
By type:		
Interest payable (c)	48,602	27,091
Deferred income (b)	17,780	16,814
Value added tax	6,927	435
Deposits from third parties (d)	3,531	3,593
Workers' profit sharing	-	2,236
Tax payables	4,102	1,504
Vacations	241	186
Other payables	13,930	15,887
Total	97,961	69,090
By term:		
Current	87,554	59,012
Non-current	10,407	10,078
Total	97,961	69,090

(b) The composition of the deferred income caption is presented below:

	As of March 31, 2019 S/(000)	As of December 31, 2018 S/(000)
Key money (b.1)	14,446	14,362
Advanced rents	1,728	1,591
Others	1,606	861
Total	17,780	16,814

(b.1) As of March 31, 2019 and December 31, 2018, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.

(c) As of March 31, 2019 and December 31, 2018, corresponds mainly to interest payable originated from the private offering of "Senior Notes Unsecured" maturing in 2028 and 2034 that accrue interest annual at a rate of 5.75, 6.5625 and 7.875 percent annual.

(d) As of March 31, 2019 and December 31, 2018 it mainly corresponds to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Pucallpa, Centro Cívico and Nuevo Chimbote.

These deposits do not accrue interest and will be refunded in the original currency at the end of the lease contract.

Notes to the interim consolidated financial statements (continued)

16. Financial obligations

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

Type of Obligation	Original		Maturity final	Total				Current		Non-current	
	Currency	Interest Rate %		Original Amount		As of March	As of March 31,	As of March	As of March 31,	As of March	As of March 31,
				US\$ (000)	S/(000)	31, 2019	2018	31, 2019	2018	31, 2019	2018
Bonds issuance											
Senior Notes Unsecured (b)	USD	5.750	2028	350,000	-	1,083,435	1,100,785	-	-	1,083,435	1,100,785
Senior Notes Unsecured (c)	PEN	7.875	2034	-	141,000	135,462	135,446	-	-	135,462	135,446
Senior Notes Unsecured (b)	PEN	6.5625	2028	-	313,500	309,616	309,540	-	-	309,616	309,540
				<u>350,000</u>	<u>454,500</u>	<u>1,528,513</u>	<u>1,545,771</u>	<u>-</u>	<u>-</u>	<u>1,528,513</u>	<u>1,545,771</u>
Leasings											
Related entities											
Banco Internacional del Perú-Interbank	USD	5.300	2020	208	-	143	171	143	150	-	21
Non-related entities											
Banco de Crédito del Perú (d)	PEN	8.020	2019	-	54,748	3,399	4,223	3,399	4,223	-	-
Banco de Crédito del Perú (e)	PEN	7.970	2023	-	32,926	18,833	19,709	3,630	3,569	15,203	16,140
Banco de Crédito del Perú (f)	PEN	8.060	2024	-	20,726	12,696	13,199	2,068	2,038	10,628	11,161
Banco Scotiabank	PEN	6.820	2025	-	430,000	132,635	109,060	-	-	132,635	109,060
Hewlett Packard S.A.	USD	Between 3.300 and 6.200	2019 - 2021	568	-	700	785	469	440	231	345
CSI Renting	USD	Between 2.720 and 5.130	2019 - 2021	241	-	481	508	237	221	244	287
Infratech	USD	5.00	2020	66	-	100	107	88	76	12	31
				<u>1,083</u>	<u>538,400</u>	<u>168,987</u>	<u>147,762</u>	<u>10,034</u>	<u>10,717</u>	<u>158,953</u>	<u>137,045</u>
Promissory notes and loans											
Non-related entities											
Scotiabank Perú S.A.A. (g)	PEN	6.700	2019	-	100,000	18,715	24,940	18,715	24,940	-	-
Call Spread financing, Note 13											
JP. Morgan	USD	10.205	2028	23,440	-	75,252	76,567	5,081	5,170	70,171	71,397
				<u>23,440</u>	<u>100,000</u>	<u>93,967</u>	<u>101,507</u>	<u>23,796</u>	<u>30,110</u>	<u>70,171</u>	<u>71,397</u>
Total				<u>374,523</u>	<u>1,092,900</u>	<u>1,791,467</u>	<u>1,795,040</u>	<u>33,830</u>	<u>40,827</u>	<u>1,757,637</u>	<u>1,754,213</u>

Notes to the interim consolidated financial statements (continued)

- (b) In April, 2018, Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls, Subsidiary of the Company, has issued debt instruments ("Notes") denominated in US Dollars through a private offer to institutional investors under Rule 144A and Regulation S, for US\$350,000,000, equivalent to S/1,162,350,000 as of March 31, 2019 (S/1,182,650,000 as of December 31, 2018) that accrues an interest of 5.75 percent per annum, with a maturity of 10 years, with semi-annual 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 6.752 percent, after considering the respective up-front fees that amounted to US\$23,762,000 equivalent to approximately S/78,915,000 as of March 31, 2019 (US\$24,228,000 equivalent to approximately S/81,865,000 as of December 31, 2018).

Additionally, in April 2018, the Company's Subsidiary issued debt instruments ("Notes") denominated in Soles for S/313,500,000 that bear an annual interest rate of 6.5625 percent, maturing in 10 years and with payment semiannual interest and the principal in a single installment at the expiration of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 6.730 percent, after considering the respective up-front fees that amounted to S/3,884,000 as of March 31, 2019 (S/3,960,000 as of December 31, 2018).

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

In the opinion of the Management, these covenants do not limit operations of the Company and its subsidiaries and have been complied satisfactorily and are within the agreed limits as of March 31, 2019 and December 31, 2018. Likewise, 100 percent of the "Senior Unsecured Notes" is guaranteed by the shares of InRetail Real Estate Corp. and Subsidiaries.

- (c) In July 2014, InRetail Real Estate Corp. issued, through InRetail Shopping Malls, an offering in the local market and abroad of "Senior Unsecured Notes" for S/141,000,000, due in July 2034, at a 7.875 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.988 percent, after considering the respective up-front fees that amounted to S/1,538,000 as of March 31, 2019 (S/1,554,000 as of December 31, 2018). Additionally, as of March 31, 2019 and December 31, 2018, the balance is presented net of S/4,000,000 corresponding to the notes of this issuance held by InRetail Shopping Malls. As of March 31, 2019 and December 31, 2018, the balance of this loan is S/135,462,000 and S/135,446,000, respectively.

Notes to the interim consolidated financial statements (continued)

- (d) Corresponds to a leasing agreement with Banco de Crédito del Perú (hereinafter BCP), for an approximate amount of S/54,748,000, over a term of 120 months, for the properties that Interseguro sold through a landlord lease contract. This loan was mainly used for the acquisition of the property where Real Plaza Chiclayo shopping mall is located. BCP put the leased buildings in favor of Interproperties Peru, since it made the payment of an initial installment amounting to S/18,748,000 in October, 2009, in accordance to the leasing contract.

This obligation is associated solely with the Real Plaza Chiclayo shopping mall project and is provided with a guarantee and management trust through la Fiduciaria S.A., which securitize the future cash flows of the collection rights on the contracts of lease, sublease, usufruct and any other type of contract that the tenants of Real Plaza Chiclayo shopping mall must pay for: (a) rent (fixed and/or variable), use, penalties, indemnifications, key right and/or any type of consideration for the use or enjoyment of said premises; (b) commissions on events and sponsorships or the leases of spaces for advertisement; and, (c) in a general way, any type of collection related to the activity of Real Plaza Chiclayo shopping mall, which constitute the assets in trust that have been transferred to the trust managed by La Fiduciaria S.A.

In August 2014, the loan was restructured with a change in the interest rate, which changed from 9.02 to 8.02.

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits.

- (e) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which it signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US\$12,500,000. As of March 31, 2019 and December 31, 2018, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.

In June 2014 the debt was restructured with a change in the financing currency of US Dollars to Soles, the loan with the currency exchange amounted to S/32,926,000 and as a result, the interest rate changed from 7.62 to 7.97.

- (f) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of March 31, 2019 and December 31, 2018, the expansion of Section 2B is finished.

In June 2014 the debt was restructured with a change in the financing currency of US Dollars to Soles, the loan with the currency exchange amounted to S/20,727,000 and as a result the interest rate changed from 7.02 to 8.06.

- (g) Corresponds to a loan agreement with Scotiabank del Perú S.A.A. of S/100,000,000, for a period of four years, payable in quarterly installments. This loan was used to repay debt and other corporate purposes.

This obligation was recorded in the consolidated financial statements at amortized cost with an effective annual interest rate of 7.135 percent per annum after considering the respective initial charge of approximately S/35,000 in March 31, 2019 (S/215,000 in December 31, 2018).

Notes to the interim consolidated financial statements (continued)

As of March 31, 2019, InRetail Real Estate amortized the debt with Scotiabank del Perú S.A.A. by S/81,250,000.

(h) Financial obligations are payable as follows:

	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
2019	32,173	40,827
2020	12,225	121,395
2021	12,835	12,945
2022	13,844	13,963
2023	13,865	1,605,910
2024 onwards	1,706,525	-
Total	1,791,467	1,795,040

17. Income tax

(a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of March 31, 2019 and December 31, 2018, as well as those presented in the consolidated statement of income for the three months periods ended March 31, 2019 and 2018, is detailed as follows:

Statements of financial position	As of March 31, 2019		As of December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
Real Plaza S.R.L.	1,521	-	1,521	-
Inversiones Real Estate S.R.L.	-	631	-	631
La Estación Central S.A	301	-	301	-
Inmobiliaria Puerta del Sol S.R.L.	-	30,403	-	30,156
Total	1,822	31,034	1,822	30,787

Statements of comprehensive income	Income tax for the three-month period ended March 31, 2019 and 2018	
	2019	2018
	S/(000)	S/(000)
Current	(16,064)	(10,627)
Deferred	(247)	(809)
Total	(16,311)	(11,436)

Notes to the interim consolidated financial statements (continued)

18. Commitments

As of March 31, 2019, corresponds to guarantee letters in favor of third parties for approximately S/8,782,000 and US\$3,620,000 (S/8,827,000 and US\$3,391,000 as of December 31, 2018), which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

19. Equity

(a) Capital stock –

As of March 31, 2019 and December 31, 2018, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$1.00 each.

(b) Earnings per share –

Earnings per share are calculated by dividing the income of the period attributable to the common shareholders of InRetail Real Estate Corp. by the weighted average number of shares outstanding during the year. Because outstanding instruments with dilutive effect are not held, basic and diluted earnings per share are the same.

The calculation of basic and diluted earnings per share is presented as follows:

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 1, 2018	568,201,039	365	568,201,039
Number as of March 31, 2018	568,201,039		568,201,039
Number as of January 1, 2019	568,201,039	365	568,201,039
Number as of March 31, 2019	568,201,039		568,201,039
For the three-month period ended March 31, 2019			
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	37,602,000	568,201,039	0.066
For the three-month period ended March 31, 2018			
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	32,684,000	568,201,039	0.058

Notes to the interim consolidated financial statements (continued)

20. Income from real estate service

(a) The composition of the balance for the three-month periods ended as of March 31, 2019 and 2018 is presented below:

	2019 S/(000)	2018 S/(000)
Rental income		
Rental income (b)	82,661	79,700
Rent of space for publicity	2,778	2,270
Key money	1,502	1,796
Total	86,941	83,766
Income from management services		
Common expenses (c)	17,532	16,750
Electricity and water (d)	14,352	13,866
Promotion and advertisement (e)	4,606	4,336
Parking	2,532	2,058
Management services	265	259
Others	1,049	1,052
Total	40,336	38,321

(b) As of March 31, 2019 and 2018, corresponds to rental income from the economic exploitation of the "Real Plaza" shopping malls.

The composition of the rental income is presented below:

	2019 S/(000)	2018 S/(000)
Fixed rental income	70,163	67,856
Variable rental income	12,498	11,844
Total	82,661	79,700

(c) Corresponds to income from common expenses including expenses of maintenance, safety management and supervision of shopping malls, which are billed to each tenant according to the terms established in the lease contract.

(d) Corresponds to income from electricity and water that are assumed by the Company and are then billed to every tenant of shopping malls.

(e) Corresponds to income from advertising and promotional activities of the Real Plaza shopping malls, which are billed to every tenant of the shopping malls according to the terms established in the lease contract.

Notes to the interim consolidated financial statements (continued)

21. Costs of rental income

(a) The composition of this caption for the three-month period ended as of March 31, 2019 and 2018 is presented below:

	2019 S/(000)	2018 S/(000)
Cost of rental income		
Landlord leases (b)	4,136	6,647
Depreciation from right-of-use asset, Note 11(a)	1,916	-
Property tax and duties	4,278	3,676
Property insurance costs	1,272	980
Others	102	78
Total	11,704	11,381
Cost related to income from management services		
Electricity and water	12,514	11,919
Maintenance and administration of parking lot	4,244	3,845
Advertising and marketing	4,139	4,126
Personnel expenses	3,783	3,163
Cleaning services	2,888	2,661
Safety services	2,125	1,956
Leases, professional fees and communications	648	205
Other costs	317	-
Total	30,658	27,875

(b) Correspond to the leases of land over which Interproperties Holding and Interproperties Holding II have built or have a shopping mall under construction.

22. Selling and administrative expenses

(a) The composition of this caption for the three-month period ended as of March 31, 2019 and 2018 is presented below:

	2019 S/(000)	2018 S/(000)
Administrative expenses	7,292	7,992
Selling expenses	1,855	1,755
Total	9,147	9,747

Notes to the interim consolidated financial statements (continued)

- (b) The components of operating expenses included in the selling and administrative expenses captions are presented below:

	2019		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	1,658	4,410	6,068
Depreciation, Note 11 (a)	-	824	824
Amortization	-	116	116
Services provided by third parties	66	959	1,025
Allowance for doubtful accounts, Note 7 (e)	178	-	178
Recovery of allowance for doubtful accounts, Note 7 (e)	(152)	-	(152)
Other charges	105	983	1,088
Total	1,855	7,292	9,147

	2018		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	1,452	4,658	6,110
Depreciation	-	800	800
Amortization	-	77	77
Services provided by third parties	253	1,801	2,054
Allowance for doubtful accounts, Note 7 (e)	246	-	246
Recovery of allowance for doubtful accounts, Note 7 (e)	(167)	-	(167)
Other charges	(29)	656	627
Total	1,755	7,992	9,747

Notes to the interim consolidated financial statements (continued)

23. Financial income and expenses

(a) The composition of this caption for the three-month period ended as of March 31, 2019 and 2018 is presented below:

	2019	2018
	S/(000)	S/(000)
Income		
Interest on deposits	3	750
Gain from sale of Corporate bonds	-	1,164
Interest from loans granted	7,143	405
Others	305	139
Total	7,451	2,458
	2019	2018
	S/(000)	S/(000)
Expenses		
Bond interest expenses	24,282	18,264
Premium for early settlement of Call spread (b)	-	17,109
Interest from leasing and others	5,063	1,713
Debt structuring expenses	1,757	3,408
Accrual of the Call Spread premium	1,011	645
Interest for lease liabilities	2,253	-
Other	810	3,303
Total	35,176	44,442

(b) In March 2018, the Call Spread with J.P. Morgan that expired in 2021 and that covered the InRetail Shopping Malls 2014 bond for US\$200,000,000, was liquidated in advance, generating a premium of S/17,109,000.

24. Tax situation

(a) InRetail Real Estate Corp. is incorporated in Panama; therefore, it is not subject to any Income Tax.

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

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

(b) Real Plaza is domiciled in Perú and is subject to the Peruvian tax system and, in compliance with current Peruvian legislation calculate their income tax on the basis of their separate financial statements. As of March 31, 2019 and December 31, 2018, the statutory income tax rate was 29.5 percent on tax payable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

Notes to the interim consolidated financial statements (continued)

- (c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:
- (i) In first place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months and,
 - (ii) In second place, 10 percent or more of the shares of the non-resident must be sold in any twelve month period;
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of March 31, 2019 and December 31, 2018.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	Income Tax	Value added tax
Real Plaza S.R.L.	2015, 2017 and 2018	From 2015 to 2018
Inmobiliaria Puerta del Sol S.A.	From 2015 to 2018	From 2015 to 2018
Inversiones Real Estate S.R.L	From 2015 to 2018	From 2015 to 2018
La Estación Central S.A.	From 2015 to 2018	From 2015 to 2018

In accordance with Peruvian law, InRetail Shopping Malls, Interproperties Holding and Interproperties Holding II, Special Purpose Entities, are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profits earned to date. As of March 31, 2019 and December 31, 2018, the accrued income tax amounted to S/303,147,000 and S/278,534,000, respectively.

Due to the possible interpretations that the Tax Auditory may give to the legal regulations currently in force, it is not possible to determine, to date, whether the examinations performed will or will not result in liabilities for InRetail Real Estate and its Subsidiaries. Thus, any higher tax or charges that could result from eventual tax examinations would be applied to the results of the period in which such tax or surcharge are determined.

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of March 31, 2019 and December 31, 2018.

Notes to the interim consolidated financial statements (continued)

25. Transactions with related companies

(a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of March 31, 2019 and December 31, 2018:

	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Receivables		
InRetail Perú Corp. (d)	402,500	409,517
Tiendas Peruanas Oriente S.A.C.	8,508	9,298
Tiendas Peruanas S.A.	9,896	6,669
Homecenters Peruanos S.A.	2,736	3,920
Supermercados Peruanos S.A.	1,417	3,219
Intercorp Retail Inc.	2,023	2,010
Bembos	1,405	1,491
IR Management S.R.L.	1,219	1,270
Cineplex S.A.	808	900
Homecenters Peruanos Oriente S.A.C	462	377
Banco Internacional del Perú S.A.A.- Interbank	808	209
Plaza Vea Oriente S.A.C	252	191
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	415	168
MiFarma S.A.C	23	26
Others	8,517	8,906
Total	440,989	448,171
Current	30,970	37,431
Non Current	410,019	410,740
	440,989	448,171
	As of March 31, 2019	As of December 31, 2018
	S/(000)	S/(000)
Payables		
Interseguro Compañía de Seguros S.A.	530	1,209
Supermercados Peruanos S.A.	543	255
Homecenters Peruanos S.A.	72	105
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	58	60
Tiendas Peruanas S.A.	10	-
Others	392	67
	1,605	1,696
Financial Obligations		
Leasing:		
Banco Internacional del Perú - Interbank	143	171

InRetail Real Estate's policy with related parties is to establish transactions on similar terms and conditions to those made with third parties.

Notes to the interim consolidated financial statements (continued)

- (b) As of March 31, 2019 and December 31, 2018, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/72,181,000 and S/22,280,000, respectively.
- (c) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.
- (d) In April 2018, InRetail Shopping Malls, subsidiary of the Company, granted a loan to InRetail Perú Corp. of S/402,500,000 that accrues an effective annual interest rate of 6.90 percent and matures in March 2028.

As of March 31, 2019 and December 31, 2018, it includes S/6,864,000 y S/20,897,000 corresponding to accrued interest and interest to be payable S/7,017,000 as of December 31, 2018.

26. Financial risks management

The activities of InRetail Real Estate expose it to a variety of financial risks, which include the effects of the changes in the exchange rates, interest rate, credit and liquidity. The program of risk management of InRetail Real Estate tries to minimize the potential adverse effects in its financial performance.

InRetail Real Estate's Board of Directors is responsible for the overall risk management approach and for the approval of the policies and strategies currently in place. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

The most important aspects for the management of these risks are:

- (a) Market risk –
Is the risk that the fair values of the future cash flows of a financial instrument fluctuate due to changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and investments in shares risk. In the case of InRetail Real Estate, the financial instruments affected by market risks include loans, which are exposed to currency risk and interest rate risk.
- (i) Interest rate risk –
It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of March 31, 2019 and December 31, 2018, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.
- (ii) Exchange rate risk –
It is the risk that the fair values of future cash flows of a financial instrument fluctuate due to changes in exchange rates. The exposure of InRetail Real Estate to exchange rate risk is related mainly to the operating activities of InRetail Real Estate related to rental income in foreign currency and financial obligations.

Notes to the interim consolidated financial statements (continued)

As of March 31, 2019 and December 31, 2018, assets and liabilities by currency were the following (expressed in Thousands US Dollars):

	As of March 31, 2019 US\$(000)	As of December 31, 2018 US\$(000)
Assets		
Cash and cash equivalents	31,574	1,381
Investment at fair value through profit or loss	400	-
Investments at fair value through equity	48,867	38,738
Trade receivables, net	118	306
Other receivables, net	83	770
Accounts receivable from related parties	3,248	2,259
Total assets	84,290	43,454
Liabilities		
Trade payables	(3,254)	(3,221)
Other liabilities	(16,973)	(7,199)
Accounts payable to related parties	(677)	(228)
Lease liability	(42,680)	-
Financial obligations	(349,326)	(348,897)
Total liabilities	(412,910)	(359,545)
Call Spread	350,000	350,000
Net asset position	21,380	33,909

- (a) As of March 31, 2019 and December 31, 2018, InRetail Real Estate 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 Unsecured Notes", which is considered an effective hedging instrument.

The Call Spread is written over a nominal amount of US\$350,000,000 as of March 31, 2019 and December 31, 2018, protects it from exchange rate fluctuations between S/3.26 and S/3.75 and will be effective until maturity of the Senior Unsecured Notes". See further detail in Note 13 and 16.

In March 2018, the Call Spread with J.P.Morgan that covered InRetail Shopping Malls bonds of US\$200,000,000 was liquidated in advance, paying an exit premium of S/17,109,000. See note 23.

Transactions in foreign currency are performed at free market exchange rates. As of March 31, 2019, the market weighted average exchange rate for transactions in US dollars was S/3.316 per US\$1.00 bid and S/3.321 per US\$1.00 ask (S/3.369 per US\$1.00 bid and S/3.379 per US\$1.00 ask as of December 31, 2018).

For the three-month period ended as of March 31, 2019, InRetail Real Estate incurred into a net gain for exchange difference of approximately S/2,451,000 (gain of S/7,975,000 as of March 31, 2018), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

Notes to the interim consolidated financial statements (continued)

(b) Credit risk –

It is the risk that a counterparty cannot comply with its obligations regarding a financial instrument or sales contract, thus generating a financial loss. InRetail Real Estate is exposed to credit risk for its operating activities (mainly accounts receivable and loans) and for its financing activities, including bank deposits.

Credit risk related to accounts receivable –

The credit risk of clients is managed by Management, and it is subject to policies, procedures and controls properly established. The pending balances on accounts receivable are reviewed periodically to assure their recovery. The maximum exposure to credit risk at the date of the consolidated statement of financial position is the book value of each class of financial asset.

Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of March 31, 2019 and December 31, 2018, is the book value of the balances of cash and cash equivalent.

(c) Liquidity risk –

Liquidity is controlled through the matching of the maturities of assets and liabilities, the obtaining of credit lines and/or maintaining of liquidity surpluses, which allows InRetail Real Estate to develop its activities in a normal way.

Managing liquidity risk implies maintaining sufficient cash and financing availability, through a suitable amount of committed credit sources and the ability to settle transactions, mainly of indebtedness. In this matter, Management directs its efforts to maintain financing sources through the availability of credit lines.

It is the possibility of losses due to the changes or the volatility of the market prices of market of properties.

27. Fair value of financial instruments –

Fair value is defined as the amount at which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction, assuming an on-going enterprise.

When a financial instrument is traded on 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 to determine such fair value it is possible to use the current fair value of another financial instrument that is substantially similar, discounted cash flow analysis or other techniques applicable thereto, all of which are significantly affected by the assumptions applied. Although Management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable value of settlement value of the financial instrument.

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

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

For financial assets and liabilities that are liquid or have short-term maturities (less than three-months), such as cash and cash equivalents, trade receivables, accounts receivable to related parties and other receivables, trade accounts payable and other current liabilities, it is deemed that their book values are similar to their fair values.

Notes to the interim consolidated financial statements (continued)

(b) Financial instruments at fixed rate –

The fair value of the financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. The estimated fair value of financial obligations that accrue interests is determined through discounted cash flows by using the currently available rates for debts with similar conditions, credit risk and maturities.

28. Subsequences event

At the General Meeting of Shareholders of InRetail Real Estate Corp. of April 1, 2019 agreed to distribute the returns that the General Assembly of Trustees of Patrimony in D.S. Trust. 093-2002 EF InRetail Shopping Malls of April 1, 2019 approved for US\$5,000,000 equivalent approximately to S/16,605,000.

29. 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 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.