

InRetail Perú Corp. and Subsidiaries

Interim consolidated financial statements as of December 31, 2018 (unaudited) and December 31, 2017 (audited) and for the twelve-month periods ended December 31, 2018 and 2017

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Interim consolidated statements of financial position

As of December 31, 2018 (unaudited) and December 31, 2017 (audited)

| | Note | 2018 S/(000) | 2017 S/(000) | | Note | 2018 S/(000) | 2017 S/(000) |
|--|--------|-------------------|------------------|---|--------|-------------------|------------------|
| Assets | | | | Liabilities and equity | | | |
| Current assets | | | | Current liabilities | | | |
| Cash and short-term deposits | 4 | 643,070 | 280,381 | Trade payables | 12 | 2,990,402 | 1,632,226 |
| Investments at fair value through profit or loss | | 19,729 | 288,641 | Other payables | | 466,510 | 297,560 |
| Trade receivables, net | 5 | 574,407 | 113,113 | Accounts payable to related parties | 19(b) | 11,093 | 60,955 |
| Other receivables, net | | 123,699 | 62,458 | Current income tax | 14(b) | 10,665 | 840 |
| Accounts receivables from related parties | 19 (b) | 64,260 | 67,886 | Interest-bearing loans and borrowings | 13 | 438,304 | 171,926 |
| Inventories, net | 6 | 1,736,290 | 1,003,439 | Deferred revenue | | 28,783 | 7,074 |
| Investments at fair value through equity | 7 | 8,377 | 29,993 | Total current liabilities | | 3,945,757 | 2,170,581 |
| Prepayments | | 34,583 | 23,450 | Non current liabilities | | | |
| Taxes recoverable | | 153,730 | 28,276 | Trade payables | 12 | 19,643 | 8,539 |
| Total current assets | | 3,358,145 | 1,897,637 | Accounts payable to related parties | 19(b) | 38,918 | 25,819 |
| Non-current assets | | | | Other payables | | 1,424 | - |
| Other receivables, net | | 29,524 | 16,427 | Interest-bearing loans and borrowings | 13 | 4,630,835 | 2,531,882 |
| Accounts receivables from related parties | | 8,240 | - | Income tax related to Special Purpose Entities | 14 (b) | 226,493 | 170,336 |
| Prepayments | | 51,077 | 26,366 | Deferred revenue | | 26,510 | 32,759 |
| Taxes recoverable | | 6,166 | 19,486 | Deferred income tax liabilities, net | 14(a) | 481,616 | 217,113 |
| Derivative financial instruments | 8 | 163,951 | 51,710 | Reserves for employee retirement pension funds | | 20,429 | - |
| Property, furniture and equipment, net | 9 | 3,404,404 | 2,723,060 | Total non-current liabilities | | 5,445,868 | 2,986,448 |
| Investment properties | 10 | 3,330,581 | 2,870,002 | Total liabilities | | 9,391,625 | 5,157,029 |
| Intangible assets, net | 11 | 3,188,303 | 1,196,749 | Equity | | | |
| Deferred income tax assets, net | 14(a) | 62,153 | 14,823 | Capital stock | 15(a) | 2,138,566 | 2,138,566 |
| Other assets | | 7,315 | 367 | Treasury shares | 15(c) | (57,636) | (16,801) |
| Total non-current assets | | 10,251,714 | 6,918,990 | Capatl premium | 15(b) | 472,967 | 538,036 |
| Total assets | | 13,609,859 | 8,816,627 | Unrealized results on financial instruments derivatives | | (40,028) | (1,051) |
| | | | | Unrealized results from available for-sale-investments | | 153 | 1,400 |
| | | | | Unrealized results from foreign currency translation | | 5 | - |
| | | | | Retained earnings | | 1,626,564 | 999,231 |
| | | | | Equity attributable to owners of the parent | | 4,140,591 | 3,659,381 |
| | | | | Non-controlling interest | | 77,643 | 217 |
| | | | | Total equity | | 4,218,234 | 3,659,598 |
| | | | | Total liabilities and equity | | 13,609,859 | 8,816,627 |

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

InRetail Perú Corp. and Subsidiaries

Interim consolidated Income statements

For the twelve-month periods ended December 31, 2018 and 2017

| | Note | 2018 S/(000) | 2017 S/(000) |
|---|-------|-------------------|------------------|
| Net sales of goods | | 11,509,345 | 7,258,048 |
| Rental income | | 428,551 | 353,893 |
| Rendering of services | | 304,779 | 198,233 |
| Revenue | | 12,242,675 | 7,810,174 |
| Cost of sales | 17(a) | (8,671,018) | (5,416,196) |
| Gross profit | | 3,571,657 | 2,393,978 |
| Income from joint venture | 19(a) | 29,413 | 18,621 |
| Gain on valuation at fair value of investment properties | 10(b) | 17,400 | 21,746 |
| Selling expenses | 17(a) | (2,242,416) | (1,547,436) |
| Administrative expenses | 17(a) | (423,886) | (220,062) |
| Other operating income (expenses), net | | (13,664) | (1,827) |
| Operating profit | | 938,504 | 665,020 |
| Financial income | | 32,109 | 13,433 |
| Financial expenses | 18(a) | (510,225) | (222,031) |
| Exchange difference, net | | (38,499) | 16,794 |
| Profit before income tax | | 421,889 | 473,216 |
| Income tax expense | 14(a) | (197,001) | (187,439) |
| Net profit | | 224,888 | 285,777 |
| Attributable to: | | | |
| InRetail Perú Corp. Shareholders | | 208,332 | 285,759 |
| Non-controlling interest | | 16,556 | 18 |
| Net profit | | 224,888 | 285,777 |
| Earnings per share: | | | |
| Basic and diluted profit for the period attributable to ordinary equity holders of the parent | 20 | 2.03 | 2.78 |

All items above are related to continuing operations.

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

InRetail Perú Corp. and Subsidiaries

Interim consolidated statements of comprehensive income
For the twelve-month periods ended December 31, 2018 and 2017

| | 2018 S/(000) | 2017 S/(000) |
|---|------------------------|------------------------|
| Profit for the period | 224,888 | 285,777 |
| Other comprehensive income | | |
| Unrealized (loss) gain on investments at fair value through equity | (343) | 940 |
| Transfer of unrealized loss on investments at fair value through equity | (1,290) | - |
| Income tax related to Special Purpose Entities | 386 | (213) |
| | <u>(1,247)</u> | <u>727</u> |
| Unrealized gain on hedging derivative financial instrument | (32,832) | 16,710 |
| Transfer of realized loss on available-for-sale investments to result of the period | (518) | - |
| Income tax related to Special Purpose Entities | (12,401) | 7,689 |
| Income tax | 5,170 | - |
| | <u>(40,581)</u> | <u>24,399</u> |
| Unrealized results from foreign currency translation | 6 | - |
| | <u>6</u> | <u>-</u> |
| Other comprehensive income for the period, net of income tax effects | (41,822) | 25,126 |
| Total comprehensive income for the period | 183,066 | 310,903 |
| Attributable to: | | |
| InRetail Perú Corp. shareholders | 168,113 | 310,885 |
| Non-controlling interest | 14,953 | 18 |
| Total comprehensive income for the period | 183,066 | 310,903 |

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

InRetail Perú Corp. and Subsidiaries

Interim consolidated statements of change in equity

For the twelve-month periods ended December 31, 2018 and 2017

| | Capital stock S/(000) | Treasury shares S/(000) | Capital premium S/(000) | Unrealized results | | | Retained earnings S/(000) | Total S/(000) | Non- controlling interest S/(000) | Total equity S/(000) |
|---|--------------------------|-------------------------------|-------------------------------|--|--|--|---------------------------------|------------------|--|-------------------------|
| | | | | from derivative financial instruments S/(000) | from investment to fair value through equity S/(000) | from foreign currency translation S/(000) | | | | |
| Balance as of January 1, 2017 | 2,138,566 | (39,256) | 527,029 | (25,450) | 673 | - | 772,055 | 3,373,617 | 199 | 3,373,816 |
| Profit for the period | - | - | - | - | - | - | 285,759 | 285,759 | 18 | 285,777 |
| Other comprehensive income | - | - | - | 24,399 | 727 | - | - | 25,126 | - | 25,126 |
| Total comprehensive income | - | - | - | 24,399 | 727 | - | 285,759 | 310,885 | 18 | 310,903 |
| Dividends | - | - | - | - | - | - | (64,980) | (64,980) | - | (64,980) |
| Dividends treasury shares | - | - | - | - | - | - | 754 | 754 | - | 754 |
| Effect due to change of ownership in subsidiary | - | - | - | - | - | - | (50) | (50) | - | (50) |
| Sales of treasury shares | - | 22,455 | 11,007 | - | - | - | 5,724 | 39,186 | - | 39,186 |
| Others | - | - | - | - | - | - | (31) | (31) | - | (31) |
| Balance as of December 31, 2017 | 2,138,566 | (16,801) | 538,036 | (1,051) | 1,400 | - | 999,231 | 3,659,381 | 217 | 3,659,598 |
| Balance as of January 1, 2018 | 2,138,566 | (16,801) | 538,036 | (1,051) | 1,400 | - | 999,231 | 3,659,381 | 217 | 3,659,598 |
| Profit for the period | - | - | - | - | - | - | 208,332 | 208,332 | 16,556 | 224,888 |
| Other comprehensive income | - | - | - | (38,977) | (1,247) | 5 | - | (40,219) | (1,603) | (41,822) |
| Total comprehensive income | 2,138,566 | 2,138,566 | | (38,977) | (1,247) | 5 | 208,332 | 168,113 | 14,953 | 183,066 |
| Effect due to change of ownership in subsidiary | - | - | - | - | - | - | 419,001 | 419,001 | 62,499 | 481,500 |
| Purchase of treasury shares | - | (40,835) | (65,069) | - | - | - | - | (105,904) | - | (105,904) |
| Dividends | - | - | - | - | - | - | - | - | (26) | (26) |
| Balance as of December 31, 2018 | 4,277,132 | 2,080,930 | 472,967 | (40,028) | 153 | 5 | 1,626,564 | 4,140,591 | 77,643 | 4,218,234 |

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

InRetail Perú Corp. and Subsidiaries

Interim consolidated statements of cash flows

For the twelve-month periods ended December 31, 2018 and 2017

| | 2018 S/(000) | 2017 S/(000) |
|--|--------------------|------------------|
| Operating activities | | |
| Revenue | 12,401,662 | 7,792,163 |
| Recovery of taxes | 42,971 | 32,260 |
| Payments of goods and services to suppliers | (9,664,180) | (6,171,230) |
| Payments of salaries and social benefits to employees | (1,152,236) | (701,519) |
| Taxes paid | (235,308) | (126,237) |
| Other payments, net | (14,026) | (11,502) |
| Net cash flows from operating activities | 1,378,883 | 813,935 |
| Investing activities | | |
| Sale of property, furniture and equipment | 16,681 | 10,394 |
| Loan collected from related parties | 4,161 | 74,056 |
| Sale of investments at fair value through profit or loss | 450,034 | 387,041 |
| Sale of available-for-sale investments | 67,122 | - |
| Acquisition of subsidiaries | (1,900,339) | - |
| Purchase of investments at fair value through profit or loss | (174,691) | (515,415) |
| Purchase of investment properties, net of acquisitions through leasing contracts | (308,892) | (114,990) |
| Purchase of property, furniture and equipment, net of acquisitions through leasing contracts | (500,926) | (276,412) |
| Value added tax payment related to investment properties | (30,128) | (15,764) |
| Loans granted to related parties | (5,320) | - |
| Purchase and development of intangible assets | (48,617) | (20,312) |
| Sale of investments properties | - | 4,004 |
| Sale of intangible assets | - | 4,125 |
| Purchase of available-for-sale investments | - | (79,774) |
| Net cash flows used in investing activities | (2,430,915) | (543,047) |
| Financing activities | | |
| Proceeds from interest-bearing loans and borrowings | 4,566,112 | 577,831 |
| Proceeds from bond issuances, net of up-front fees and notes repurchased | 2,097,012 | - |
| Sale of bonds in treasury | 5,810 | - |
| Sale of treasury shares | - | 39,186 |
| Capital contribution from non-controlling interest | 481,500 | - |
| Payment of bonds issued | (866,702) | - |
| Repayment of interest-bearing loans and borrowings | (4,400,559) | (615,715) |
| Interest paid | (284,802) | (171,138) |
| Payment of premium for repurchase of bonds issued | (77,720) | - |
| Purchase of treasury shares | (105,904) | - |
| Dividend payment | (26) | (64,226) |
| Net cash flows from (used in) financing activities | 1,414,721 | (234,062) |
| Net increase (decrease) of cash and short-term deposits | 362,689 | 36,826 |
| Cash and short-term deposits at the beginning of the period | 280,381 | 243,555 |
| Cash and short-term deposits at the end of the period | 643,070 | 280,381 |
| Non-cash transactions | | |
| Fixed assets purchased through leasing and other financial obligations and non financial | 30,238 | 129,498 |
| Investment properties purchased through leasing and other financial obligations | 109,058 | - |
| Intangible assets arising of subsidiary acquisition | 687,633 | - |

The accompanying notes are an integral part of these consolidated statements

Notes to the interim consolidated financial statements (continued)

InRetail Perú Corp. and Subsidiaries

Notes to the interim condensed consolidated financial statements

As of December 31, 2018 and December 31, 2017

1. Business activity and Quicorp Group acquisition

a) Business activity

InRetail Peru Corp, (hereinafter “the Company”), is a holding incorporated in January 2011 in the Republic of Panama and is a subsidiary of Intercorp Retail Inc., which in turn is a subsidiary of Intercorp Peru Ltd. (a holding company incorporated in Bahamas, hereinafter “Intercorp Peru”) which is the ultimate parent and holds 100.00 percent of Intercorp Retail Inc.’s capital stock.

As of December 31, 2018 the percentages of ownership are:

| Owner | Ownership % |
|------------------------------|------------------------|
| Intercorp Retail Inc. | 58.04 |
| Inteligo Bank | 8.09 |
| NG Pharma Corp. | 6.30 |
| Intercorp Perú Ltd | 3.26 |
| Intercorp Financial Services | 2.33 |
| Others | 21.98 |
| Total | 100.00 |

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 Calle Morelli N° 181, San Borja, Lima Perú.

On August 21, 2014, the Company, as initial originator, established a trust fund (Special Purpose Entity) denominated "Patrimonio en Fideicomiso D.S.N°093-2002-EF-InRetail Consumer (hereinafter “InRetail Consumer”), in order to implement various investment projects and issuance of debt instruments that were executed, approved and supported by the Company and its Subsidiaries.

On September 15, 2014, the Board of InRetail Perú Corp. agreed to transfer in trust to return all shares of Supermercados Peruanos S.A. and InRetail Pharma S.A. (formerly Eckerd Perú S.A.) to InRetail Consumer.

The accompanying interim consolidated financial statements as of December 31, 2018 were approved by the Board of Directors on February 26, 2019.

Notes to the interim consolidated financial statements (continued)

b) Quicorp Group acquisition

In January 2018, the Company, through InRetail Pharma S.A. (formerly Eckerd Perú S.A) as the Parent Company, incorporated Pharma S.A.C. (formerly Chakana Salud S.A.C.), for the acquisition of 100 percent of Quicorp S.A. and its Subsidiaries (hereinafter and jointly, "Quicorp"): Química Suiza Comercial S.A.C., Química Suiza S.A.C., Cifarma S.A.C., Mifarma S.A.C., Empresa Comercializadora Mifarma S.A., Botica Torres de Limatambo S.A.C., Vantitive S.A.C., Farmacias Peruanas S.A.C., Droguería La Victoria S.A.C., Vanttive Cía Ltda., Quifatex S.A., Quimiza Ltda, Quideca S.A., Albis S.A.C., Jorsa de la Selva S.A.C. and Superfarma Mayorista S.A.C. These entities operate in the manufacturing, distribution, marketing and retail segments within the pharmaceutical sector in Peru, Ecuador, Bolivia and Colombia.

The purchase price for the acquisition of Quicorp was approximately US\$591,351,000 equivalent to S/1,898,258,000, which was partially funded with a US\$1,000,000,000 bridge loan at one-year maturity, and at a 1 month Libor plus a spread interest rate. Such bridge loan was obtained by Eckerd Perú S.A. from Citibank N.A. and JP Morgan Chase Bank N.A. Likewise, such bridge loan has been partially used for the aforementioned acquisition and, the difference, mainly for the restructuring of several debts obtained by related parties at InRetail Peru.

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

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

| | Fair value recognized on acquisition |
|---|---|
| | S(000) |
| Net book value of the assets acquired | 408,205 |
| Value assigned to brands | 449,014 |
| Other acquired intangibles | 251,100 |
| Increase in inventory for fair value adjustment | 23,136 |
| Increase in property, plant and equipment for fair value adjustment | 57,659 |
| Increase in debt for fair value adjustment | (4,796) |
| Re-allocation of goodwill, brands and other assets net of previous acquisitions | (337,359) |
| Deferred income tax | (221,335) |
| Total identifiable net assets at fair value | 625,624 |
| Goodwill from acquisition. See Note 11. | 1,272,634 |
| Purchase consideration transferred | 1,898,258 |

Notes to the interim consolidated financial statements (continued)

2. Subsidiary activities

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

(a) As indicated in Note 1 (b), InRetail Consumer (a SPE controlled by the Company), was incorporated during the year 2014 only for the purpose of offering "Senior Notes Unsecured". As of December 31, 2018 and December 31, 2017 the representative shares of stock of Supermercados Peruanos S.A. and Subsidiaries and Eckerd Perú S.A. and Subsidiaries are maintained in trust in this entity. A description of such subsidiaries is presented below:

- InRetail Pharma S.A. (formerly Eckerd Perú S.A.) is dedicated to the commercialization of pharmaceutical, cosmetic, and food for medical use products and other elements related to health protection and recovery through its "Inkafarma" and "Mifarma" pharmacy chains. It is also dedicated, to the Manufacturing, Distribution and Marketing of pharmaceutical products. As of December 31, 2018, the Company operates in Peru, Colombia, Ecuador and Bolivia. InRetail Pharma S.A. holds 100 percent of: (i) Eckerd Amazonía S.A.C. (ii) Boticas del Oriente S.A.C. See Note 1 b).

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

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

- Supermercados Peruanos S.A., is dedicated to retail. As of December 31, 2018 and December 31, 2017, has a chain of stores operating under the "Plaza Veá", "Plaza Veá Super", "Plaza Veá Express" "Vivanda", "Mass", "Mimarket" and "Economax" brands, which are located in Lima and provinces, such as Trujillo, Chimbote, Piura, Cusco, Arequipa, Huancayo and others. Supermercados Peruanos S.A. holds 100 percent of: (i) Desarrolladora de Strip Centers S.A.C. (formerly Peruana de Tiquetes S.A.C.) , (ii) Plaza Veá Sur S.A.C. and (iii) Plaza Veá Oriente S.A.C.

(b) InRetail Real Estate Corp. is a Holding company incorporated in the Republic of Panama in April 2012. In July 2014 InRetail Shopping Malls (a SPE controlled by InRetail Real Estate Corp.) was incorporated only for the purpose of issuing "Senior Notes Unsecured". As of December 31, 2018 and December 31, 2017, the representative share of capital stock of InRetail Real Estate Corp.'s subsidiaries are maintained in trust in this entity, which are detailed below:

- (i) Real Plaza S.R.L.

Entity dedicated to the management and administration of shopping centers (21 as of December 31, 2018 and December 31, 2017) named "Centro Comercial Real Plaza" and located in the cities of Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huanuco, Cusco, Cajamarca, Sullana, Pucallpa and Lima. As of December 31, 2018, the Company holds 100 percent of Centro Comercial Estación Central S.A.

Notes to the interim consolidated financial statements (continued)

- (ii) Patrimonio en Fideicomiso – D.S. N°093-2002-EF-Interproperties Holdings and Patrimonio en Fideicomiso – D.S. N°093-EF-Interproperties Holding II

Equity trust funds (henceforth “Interproperties Holding”) are Special Purpose Entities (SPE) incorporated with the purpose of creating independent entities of the originators, through which investments are made in real estate projects.

- (c) IR Management S.R.L. is an entity that manages and operates the Companies of the group and provides other types of corporate services.
- (d) Quicorp S.A. is a Holding company incorporated in the Republic of Perú in September 2010. As of December 31, 2018 and December 31, 2017, it operates through its subsidiaries in the manufacturing, distribution, marketing and retail segments of the pharmaceutical sector, with presence in Peru, Ecuador, Bolivia and Colombia. Quicorp S.A.C. holds 100 percent of: Química Suiza Comercial S.A.C., Química Suiza S.A.C., Cifarma S.A.C., Mifarma S.A.C., Empresa Comercializadora Mifarma S.A., Botica Torres de Limatambo S.A.C., Vantitive S.A.C., Farmacias Peruanas S.A., Drogueria La Victoria S.A.C., Vanttive Cía Ltda., Quifatex S.A., Quimiza Ltda, Quideca S.A., Albis S.A.C., Jorsa de la Selva S.A.C. and Superfarma Mayorista S.A.C.

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

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

Notes to the interim consolidated financial statements (continued)

3. Basis of preparation and presentation

(a) Interim financial statements

The consolidated financial statements of the InRetail 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, 2018 and December 31, 2017, respectively.

The interim financial statements of the InRetail 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 investment properties, derivative financial instruments and investments to 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 Perú'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 exchanges 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 Peru Corp.

(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 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.

Notes to the interim consolidated financial statements (continued)

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.

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

The accounting policies followed in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements as of December 31, 2017.

(c) New accounting standards

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Companies annual combined financial statements for the year ended December 31, 2017, except for the adoption of the new standards and interpretations as of January 1, 2018.

Standard adopted early NIIF 9

From 2014, the Companies use derivative instruments to manage its exposure to exchange rates. In order to manage these risks, the Companies apply hedge accounting for transactions which meet specific criteria for this. At the beginning of the hedging relationship, the Companies formally document 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 its effectiveness.

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.

Standards adopted

The InRetail Group adopt 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 1 January 2017 is required and early adoption is permitted.

Notes to the interim consolidated financial statements (continued)

The adoption of IFRS 15 for the company and its subsidiaries did not have an impact on net equity as of January 1, 2018 and 2017.

The revenues of the Company and its Subsidiaries correspond mainly to the sale of mass consumption goods and rental of commercial premises. The transfer to customers occurs at a specific time, when the merchandise is delivered, in the case of goods, and in the case of rentals, 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 sales of goods and rental of premises, correspond mainly to delivery services, future discounts through loyalty programs, franchise law and other logistics services.

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

(a) Sale of goods

For this income, this rule did not have a significant impact on the results, because there is only one contractual obligation that is the sale of goods. In this case, the recognition of the income occurs at the moment in which the control of the assets is transferred to the client, which is when the goods are delivered.

Also, in accordance with the model of IFRS 15, the other relevant aspects for the Company and its Subsidiaries are the determination of the sale price and whether, in some cases, there are other contractual obligations that should be separated from the sale and delivery of the goods. In this sense, the relevant aspects that apply are:

(i) Variable considerations

Some contracts with clients provide return rights and commercial or volume discounts. The amount of these items is calculated by estimating the weighted average probability and, in accordance with IFRS 15, these items correspond to variable considerations that affect the determination of the sales price and sales revenue, which is why they are estimated at the beginning of the contract. and they are updated later.

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, which is why they are recognized as a decrease in commercial accounts receivable in the state. Consolidated financial position and decrease of ordinary income in the consolidated statement of income, according to the following detail:

- Right of return:

When a contract with a client provides the right of return of the good in a specific period, the Company and its Subsidiaries register that right of return at the time of being made and registered at the end of said period, in the "returns" account, which is consistent with the criteria accepted by IFRS 15. In this sense, the amount of said returns is recorded as merchandise revenue and included in the item "Inventories, net" because these returns are again used as products for sale. When the return is generated, the sale is reversed, in case the good can not be exchanged for another good of the same value; will enter the item "Inventories, net", this is done at the cost of the product and is sold again at the same sale price.

Notes to the interim consolidated financial statements (continued)

- Discounts and special prices:
The Company and its Subsidiaries grant discounts mainly for commercial reasons. Eventually they offer special prices for customers by different means, these prices are higher than the cost of the product but lower than the list price. These discounts and the difference for these special prices are included in the consolidated statement of income through the recognition of provisions for expenses each month, which directly affect the income from ordinary activities.

(b) 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.

(c) Other Income

The Company and its Subsidiaries generate other income mainly for delivery concepts, future discounts through loyalty programs, franchise rights and other logistics 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.

Standards not adopted early

The InRetail Group decided not to early adopt the following standards and interpretations that have been issued by the IASB, but which are effective as of January 1, 2019:

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

As of the date of this report, the Companies are assessing the possible impact of the application of this standard on its consolidated financial statements.

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, 2018 S/(000) | As of December 31, 2017 S/(000) |
|----------------------|---------------------------------------|---------------------------------------|
| Cash (b) | 25,421 | 23,444 |
| Current accounts (c) | 495,353 | 136,162 |
| Time deposits (d) | 77,787 | 106,571 |
| Other | 44,509 | 14,204 |
| Total | 643,070 | 280,381 |

(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 which do not accrue interest and are freely available.

(d) The time deposits are freely available and are kept in local banks in Soles and US Dollars, have maturities up to one month since inception and bear annual interest rates between 0.50 and 5.75 percent in Soles and 1.20 percent annual in Dollars as of December 31, 2018 (between 2.90 and 4.80 percent in Soles and between 0.90 and 1.53 percent in US Dollars as of December 31, 2017).

5. Trade receivables, net

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

| | As of December 31, 2018 S/(000) | As of December 31, 2017 S/(000) |
|-------------------------------------|---------------------------------------|---------------------------------------|
| Retail sales (c) | 37,221 | 52,912 |
| Rent receivable (d) | 15,709 | 18,760 |
| Invoices (e) | 508,298 | 28,007 |
| Provision for accrued revenue (f) | 15,079 | 13,561 |
| Others | 62,696 | 15,534 |
| Total | 639,003 | 128,774 |
| Provision for doubtful accounts (g) | (64,596) | (15,661) |
| Total | 574,407 | 113,113 |

Notes to the interim consolidated financial statements (continued)

- (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 (i) pending deposits in favor of Supermercados Peruanos and InRetail Pharma Group for the last day of the month, respectively, held by credit card operators and originated from the sales of goods with credit cards in the different stores of Supermercados Peruanos S.A. and InRetail Pharma Group and (ii) trade accounts receivable from corporate sales.
- (d) Corresponds to accounts receivable for the lease of commercial premises to concession holders inside the stores of Supermercados Peruanos S.A. and the accounts receivable for the rental income of Interproperties Holding.
- (e) Correspond mainly to the balance receivable from the sale of goods to public institutions and various local and foreign companies. At the date of this report, these balances were mostly collected.
- (f) As of December 31, 2018 and December 31, 2017, relates to services unbilled at the end of period, mainly due to variable rentals of Interproperties Holdings. These amounts were billed in the month subsequent to the reporting date.
- (g) Movements in the provision for doubtful accounts receivable for the twelve-months periods ended December 31, 2018 and 2017, were as follows:

| | 2018 | 2017 |
|--|---------------|---------------|
| | S/(000) | S/(000) |
| Balance at the beginning of the year | 15,661 | 12,870 |
| Acquisition of subsidiary | 48,678 | - |
| Provision recognized as expense, Note 17 (a) | 10,041 | 4,116 |
| Recoveries, Note 17 (a) | (4,293) | (1,103) |
| Write-offs | (6,090) | - |
| Exchange rate | - | (222) |
| Foreign currency translation | 710 | - |
| Others | (111) | - |
| Balance as of December 31 | 64,596 | 15,661 |

As of December 31, 2018 and December 31, 2017, the amount of trade receivables past due but not impaired amounted to approximately S/107,423,000 and S/49,172,000, respectively. Past-due accounts which have a payment agreement are considered as not impaired; therefore they do not represent risk of uncollectibility.

In the opinion of Management of the InRetail Group, the provision for doubtful accounts receivable as of December 31, 2018 and December 31, 2017, appropriately covers the credit risk of this item at those dates.

Notes to the interim consolidated financial statements (continued)

6. Inventories, net

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

| | As of December 31, 2018 | As of December 31, 2017 |
|---|------------------------------------|------------------------------------|
| | S/(000) | S/(000) |
| Goods, Note 17 (a) | 1,696,905 | 986,830 |
| Goods in transit (b) | 33,362 | 16,484 |
| Miscellaneous supplies | 4,750 | 8,226 |
| Miscellaneous supplies for manufacture, Note 17 (a) | 1,075 | - |
| Raw material, Note 17 (a) | 12,129 | - |
| Finished goods, Note 17 (a) | 672 | - |
| Total | 1,748,893 | 1,011,540 |
| Minus | | |
| Provision for impairment of inventories (c) | (12,603) | (8,101) |
| Total | 1,736,290 | 1,003,439 |

(b) Correspond to goods and miscellaneous supplies imported by the InRetail Group in order to satisfy customers demand in its stores.

(c) The movement in the provision for inventory impairment for the twelve-month periods ended December 31, 2018 and 2017, was as follows:

| | 2018 | 2017 |
|---|---------------|--------------|
| | S/(000) | S/(000) |
| Balance at the beginning of the year | 8,101 | 8,960 |
| Acquisition of subsidiary | 10,096 | - |
| Provision of the period, Note 17 (a) | 6,717 | 7,062 |
| Recoveries | (1,930) | - |
| Write-offs | (10,541) | (7,921) |
| Foreign currency translation | 160 | - |
| Balance as of December 31 | 12,603 | 8,101 |

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 InRetail Group.

Notes to the interim consolidated financial statements (continued)

7. Investment to fair value through equity

As of December 31, 2018, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$ 2,479,000 equivalent to S/8,377,000 (US\$9,243,000 equivalent to S/29,993,000 as of December 31, 2017). The unrealized loss, net of deferred income tax, of the notes held as of December 31, 2018 amounted to S/1,247,000 (gain of S/727,000 as of June, 2017) and is presented in the consolidated statements of change in equity.

8. Derivative financial instruments

As of December 31, 2018, this item comprises of two "Principal Call Spread" contracts designated to hedge cash flows from exchange rate variations and recorded at their fair value (three contracts as of December 31, 2017). The detail of the operations is as follows:

| Counterparty | Nominal value | Due | Pay fix at | Book value of | Fair value | Fair value |
|------------------------|---------------|--------------|------------|-----------------|----------------|---------------|
| | | | | the hedged item | 2018 | 2017 |
| | US\$(000) | | % | S/(000) | S/(000) | S/(000) |
| J.P. Morgan (a) | 350,000 | April 2028 | 1.05 | 1,182,650 | 77,257 | - |
| CitiBank N.A. (a) | 400,000 | May 2023 | 1.27 | 1,351,600 | 86,694 | - |
| J.P. Morgan (b) | 200,000 | July 2021 | 1.84 | 649,000 | - | 30,279 |
| Deutsche Bank A.G. (b) | 100,000 | October 2021 | 1.56 | 324,500 | - | 16,614 |
| Bank of Tokyo (b) | 30,000 | October 2021 | 1.20 | 97,350 | - | 4,817 |
| Total | | | | | 163,951 | 51,710 |

- (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 of the "Senior Notes Unsecured", which were issued in April 2018. Between the contract date of the Call Spread and the date of issue of the bond, this contract was recorded as a negotiation instrument. From the date of issuance of the "Senior Notes Unsecured" for the purposes of IFRS 9, it was classified as an effective hedging instrument, See Note 13(b).

In April 2018, InRetail Pharma decided to carry out hedging operations through a Foreign Currency Call Spread for the financial obligations of the "Senior Notes Unsecured", which were issued in May 2018. Between the contract date of the Call Spread and the date of issue of the bond, this contract was recorded as a negotiation instrument. From the date of issuance of the "Senior Notes Unsecured" for the purposes of IFRS 9, it was classified as an effective hedging instrument, See Note 13 (c).

These instruments covers 100 percent of the exposure in foreign currency of the principal of the issues 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 issue.

Notes to the interim consolidated financial statements (continued)

- (b) As of December 31, 2017, the financial instrument covered 43 and 57 percent, of the exposure to foreign currency risk arising from the international bonds issued in July and October 2014, see note 13 (b) and 13 (d). The Call Spreads cover variations in the exchange rate from S/3.220, S/3.379 and S/3.225 to S/3.75 per US\$1.00 and the premiums were funded in installments, generating a liability.

In February 2018, the Company paid in full the financial obligations of InRetail Consumer covered by the Call Spreads issued by Bank of Tokyo and Deutsche Bank A.G. for US\$130,000,000, passing this instrument to be registered as trading, recognizing S/3,041,000 as financial expenses. In April 2018, the Call Spread was liquidated in advance, generating an exit premium of S/3,433,000. See Note 18 (a).

In March 2018, the JP Morgan Call Spread that covered the US\$200,000,000 bond issued by InRetail Shopping Malls was liquidated in advance, generating an exit premium of S/17,109,000. See Note 18 (a).

9. Property, furniture and equipment, net

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

| | As of December 31, 2018 | As of December 31, 2017 |
|---|----------------------------|----------------------------|
| | S/(000) | S/(000) |
| Cost | | |
| Initial balance | 3,695,504 | 3,390,798 |
| Acquisition of subsidiary, net of depreciation and impairment | 416,838 | - |
| Additions (b) | 531,164 | 405,910 |
| Disposals and/or sales (c) | (137,507) | (53,693) |
| Transfer to intangible assets, Note 11 (a) | (352) | - |
| Transfer to key money | (49) | - |
| Transfer from available for sale investments | 4,039 | - |
| Transfer from investments properties, Note 10(b) | 8,969 | - |
| Transfer to investments properties, Note 10(b) | (34,388) | (47,511) |
| Foreign currency translation | 2,183 | - |
| Final balance | 4,486,401 | 3,695,504 |
| Accumulated depreciation | | |
| Initial balance | 972,444 | 842,966 |
| Additions (d) | 205,762 | 162,666 |
| Disposals and/or sales | (94,461) | (32,127) |
| Transfer from available for sale Investments | 147 | - |
| Transfer from (to) investment properties, Note 10(b) | (3,499) | (1,061) |
| Foreign currency translation | 1,604 | - |
| Final balance | 1,081,997 | 972,444 |
| Net book value | 3,404,404 | 2,723,060 |

Notes to the interim consolidated financial statements (continued)

- (b) Additions for the twelve-month periods ended December 31, 2018 and 2017 correspond mainly to the construction and equipment of new premises for Supermercados Peruanos S.A. and the InRetail Pharma Group.
- (c) Mainly correspond to assets sold and to the disposals of unusable assets as a result of the process of change of format in some premises and pharmacies closures. The resulting income or expense has been included in the "Other operating income" or "Other operating expenses" caption of the consolidated income statement, respectively.
- (d) Depreciation expense for the twelve-month periods ended December 31, 2018 and 2017, was recorded as follows in the income statement:

| | 2018 | 2017 |
|--------------------------------------|----------------|----------------|
| | S/(000) | S/(000) |
| Cost of sales, Note 17 (a) | 3,926 | - |
| Sales expenses, Note 17 (a) | 181,730 | 144,655 |
| Administrative expenses, Note 17 (a) | 20,106 | 18,011 |
| | <hr/> | <hr/> |
| Balance as of December 31 | 205,762 | 162,666 |
| | <hr/> | <hr/> |

- (e) As of December 31, 2018 Supermercados Peruanos S.A. has mortgaged land lots, buildings and facilities for a net book value of S/775,520,000 (S/412,243,000 as of December 31, 2017), as collateral of the financial obligations and the leasing contracts (see Note 13).
- (f) As of December 31, 2018 the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/761,726,000 and S/285,543,000, respectively (S/707,225,000 and S/216,367,000, respectively, as of December 31, 2017).
- (g) The InRetail Group maintains insurance policies on their main assets in accordance with the policies established by Management.

Notes to the interim consolidated financial statements (continued)

10. Investment properties

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

| | As of December 31, 2018 S/(000) | As of December 31, 2017 S/(000) |
|---|---------------------------------------|---------------------------------------|
| Real Plaza Salaverry Shopping Mall (i) | 429,936 | 423,389 |
| Real Plaza Puruchuco project | 328,797 | 141,749 |
| Real Plaza Primavera Shopping Mall | 226,634 | 222,477 |
| Real Plaza Chiclayo Shopping Mall | 227,153 | 216,475 |
| Real Plaza Cuzco Shopping Mall (i) | 216,073 | 211,849 |
| Real Plaza Piura Shopping Mall | 207,937 | 198,820 |
| Real Plaza Centro Civico Shopping Mall (i) | 198,942 | 197,392 |
| Real Plaza Trujillo Shopping Mall | 186,349 | 173,770 |
| Real Plaza Huancayo Shopping Mall (i) | 140,121 | 130,205 |
| Real Plaza Pucallpa Shopping Mall | 134,424 | - |
| Real Plaza Huánuco Shopping Mall (i) | 92,839 | 89,422 |
| Real Plaza Cajamarca Shopping Mall | 87,766 | 85,788 |
| Real Plaza Villa Maria del Triunfo Shopping Mall (La Curva) (i) | 81,380 | 82,114 |
| Real Plaza Juliaca Shopping Mall (i) | 75,169 | 74,691 |
| Real Plaza Santa Clara - Altamirano Shopping Mall | 75,157 | 72,906 |
| Real Plaza Chorrillos Shopping Mall | 65,034 | 63,514 |
| Real Plaza Pro Shopping Mall | 62,099 | 60,472 |
| Real Plaza Arequipa Shopping Mall (i) | 56,391 | 59,728 |
| Plaza Center Lurin Shopping Mall | 49,465 | 47,780 |
| Real Plaza Nuevo Chimbote Shopping Mall | 36,714 | 26,583 |
| Plaza Center Tarapoto Shopping Mall | 31,563 | - |
| Real Plaza Sullana Shopping Mall | 30,054 | 28,801 |
| Plaza Center Villa El Salvador Shopping Mall | 28,847 | 31,623 |
| Plaza Center Moquegua Shopping Mall | 27,163 | 24,837 |
| Plaza Center Tacna Shopping Mall | 18,017 | 16,305 |
| Jr. de la Unión stores | 13,354 | 13,466 |
| Others | 203,203 | 175,846 |
| Total | 3,330,581 | 2,870,002 |

(i) For the construction of these shopping malls and properties, surface right contracts were subscribed with Arzobispado de Cuzco (on land in Cuzco "San Antonio"), Municipalidad Provincial de Huánuco (on land of "Real Plaza Huánuco" Shopping Mall), Inmobiliaria Pazos S.A. (La Curva), 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). These contracts have a maturity between 20 and 70 years.

"Real Plaza" shopping malls consist of department stores, home improvement, supermarket, other retail shops, a cinema complex and an entertainment area; with which contracts have been signed that provide a minimum monthly rent and a variable rent based on sales.

Notes to the interim consolidated financial statements (continued)

- (b) The movement of this account for the twelve-month periods ended December 31, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|---|------------------|------------------|
| | S/(000) | S/(000) |
| Balance at the beginning of the year | 2,870,002 | 2,687,776 |
| Acquisition of subsidiary | 11,767 | - |
| Additions | 417,950 | 114,990 |
| Disposal | (8,458) | (960) |
| Fair value adjustment | 17,400 | 21,746 |
| Transfer from property, furniture and equipment; Note 9 (a) | 30,889 | 46,450 |
| Transfer to property, furniture and equipment; Note 9 (a) | (8,969) | - |
| Balance as of December 31 | 3,330,581 | 2,870,002 |

The fair value of investment properties has been determined on a discounted cash flows method basis by the Management of the InRetail Group for completed investment properties and based on the value assigned by an independent appraiser for investment properties under construction and investment properties held to operate in the future. The valuation is prepared on an aggregated unleveraged basis. In arriving at their estimates of market values, the Management of the InRetail Group has used their market knowledge and professional judgment and not only relied on historical transactional comparables. Fair value adjustment is included in the "Other operating income" caption of the consolidated income statement.

Notes to the interim consolidated financial statements (continued)

11. Intangible assets, net

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

| | As of December 31, 2018 S/(000) | As of December 31, 2017 S/(000) |
|--|---------------------------------------|---------------------------------------|
| Cost | | |
| Initial balance | 570,806 | 552,633 |
| Acquisition of subsidiary, net of amortization | 27,877 | - |
| Additions (c) | 736,250 | 20,312 |
| Disposal and/or sales | (14,387) | (2,139) |
| Transfer from prepayments | 5,665 | - |
| Transfer from property plant and equipment, Note 9 (a) | 352 | - |
| Foreign currency translation | 190 | - |
| Final balance | 1,326,753 | 570,806 |
| Accumulated amortization | | |
| Initial balance | 83,529 | 67,932 |
| Additions (e) | 50,677 | 16,210 |
| Disposals and/or sales | (13,800) | (613) |
| Foreign currency translation | 150 | - |
| Final balance | 120,556 | 83,529 |
| Goodwill | | |
| Initial balance | 709,472 | 709,472 |
| Acquisition of Subsidiary | 257,205 | - |
| Additions (d) | 1,272,634 | - |
| Disposal and/or sales | (257,205) | - |
| Final balance | 1,982,106 | 709,472 |
| Net, book value | 3,188,303 | 1,196,749 |

(b) As of December 31, 2018 and December 31, 2017, this caption mainly includes approximately S/373,054,000 and S/709,472,000 corresponding to the brand "Inkafarma" and goodwill respectively, as a result of the acquisition of the InRetail Pharma (formerly Eckerd Group) and other intangibles with finite lives such as software.

The Goodwill and the "Inkafarma" brand are tested for impairment annually (as of December 31) and when circumstances indicate that the carrying value may be impaired. The InRetail Group impairment test for goodwill and intangible assets with indefinite useful lives is based on value-in-use calculations which use a discounted cash flow model.

(c) As of December 31, 2018 and December 31, 2017, additions mainly correspond to: (i) disbursements for the acquisition of a commercial software program, a general planning system (ERP) and related licenses; (ii) disbursements for implementation of software and licenses in new stores of InRetail Group and (iii) recognition of trademarks and other intangibles from the acquisition of the Quicorp Group, see Note 1 (b).

Notes to the interim consolidated financial statements (continued)

- (d) As of December 31, 2018, this caption mainly includes the goodwill, as a result of the acquisition of the Quicorp Group. Purchase price for the acquisition of Quicorp was approximately US\$591,351,000 equivalent to S/1,899,263,000 and at the date of acquisition. See Note 1(b).
- (e) Amortization expense for the twelve-month periods ended December 31, 2018 and 2017 has been recorded in the following items of the combined statements:

| | 2018 | 2017 |
|--------------------------------------|---------------|---------------|
| | S/(000) | S/(000) |
| Cost of sales, Note 17 (a) | 124 | - |
| Sales expenses, Note 17 (a) | 39,866 | 9,635 |
| Administrative expenses, Note 17 (a) | 10,687 | 6,575 |
| Balance as of December 31 | 50,677 | 16,210 |

12. Trade payables

The table below presents the composition of this caption:

| | As of December 31, 2018 | As of December 31, 2017 |
|--|------------------------------------|------------------------------------|
| | S/(000) | S/(000) |
| Bills payable from purchase of goods | 2,454,382 | 1,412,426 |
| Bills payable from commercial services | 511,976 | 228,339 |
| Provision for services and maintenance | 43,687 | - |
| Total | 3,010,045 | 1,640,765 |
| Current | 2,990,402 | 1,632,226 |
| Non current | 19,643 | 8,539 |
| Total | 3,010,045 | 1,640,765 |

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

InRetail 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 Group has no direct financial interest in these transactions. All of InRetail Group's obligations, including amounts due, remain due to its suppliers as stated in the supplier agreements.

Notes to the interim consolidated financial statements (continued)

13. Interest-bearing loans and borrowings

(a) The table below presents the composition of interest-bearing loans and borrowings:

| Type of obligation | Original currency | Interest rate % | Final maturity | Original amount | | | Total | | Current | | Non-current | | |
|--|-------------------|-------------------------|----------------|------------------|----------|------------------|------------------|------------------|---------------|---------------|------------------|------------------|---------|
| | | | | US\$ (000) | \$ (000) | S/(000) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| | | | | | | | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | |
| Senior Notes Unsecured | | | | | | | | | | | | | |
| Senior Notes Unsecured (b) | USD | 5.750 | 2028 | 350,000 | - | - | 1,100,785 | - | - | - | - | 1,100,785 | - |
| Senior Notes Unsecured (b) | PEN | 6.563 | 2028 | - | - | 313,500 | 309,540 | - | - | - | - | 309,540 | - |
| Senior Notes Unsecured (e) | PEN | 7.875 | 2034 | - | - | 141,000 | 135,446 | 135,383 | - | - | - | 135,446 | 135,383 |
| Senior Notes Unsecured (c) | PEN | 6.438 | 2025 | - | - | 385,800 | 383,390 | - | - | - | - | 383,390 | - |
| Senior Notes Unsecured (c) | USD | 5.375 | 2023 | 400,000 | - | - | 1,330,899 | - | - | - | - | 1,330,899 | - |
| Senior Notes Unsecured (d) | USD | 6.500 | 2021 | 350,000 | - | - | - | 916,875 | - | - | - | - | 916,875 |
| Senior Notes Unsecured (f) | USD | 5.250 | 2021 | 300,000 | - | - | - | 558,394 | - | - | - | - | 558,394 |
| Senior Notes Unsecured (f) | PEN | 6.813 | 2021 | - | - | 250,000 | - | 249,439 | - | - | - | - | 249,439 |
| | | | | 1,400,000 | - | 1,090,300 | 3,260,060 | 1,860,091 | - | - | 3,260,060 | 1,860,091 | |
| Leasings | | | | | | | | | | | | | |
| Related entities | | | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 7.850 | 2019 | - | - | 27,412 | 4,219 | 10,142 | 4,219 | 5,923 | - | - | 4,219 |
| Banco Internacional del Perú-Interbank | PEN | Between 6.000 and 6.230 | 2022 | - | - | 198,301 | 121,318 | 138,809 | 27,272 | 12,398 | 94,046 | 126,411 | |
| Banco Internacional del Perú-Interbank | USD | 5.300 | 2020 | 208 | - | - | 171 | 326 | 150 | 160 | 21 | 166 | |
| Non related entities | | | | | | | | | | | | | |
| Banco de Crédito del Perú | PEN | Between 6.590 and 7.850 | 2021 | - | - | 79,236 | 18,576 | 33,174 | 8,952 | 14,598 | 9,624 | 18,576 | |
| Banco de Crédito del Perú | PEN | Between 7.970 and 8.060 | 2019-2024 | - | - | 108,400 | 37,131 | 47,396 | 9,830 | 10,264 | 27,301 | 37,132 | |
| Banco Scotiabank | PEN | 6.820 | 2025 | - | - | 430,000 | 109,060 | - | - | - | 109,060 | - | |
| Banco Continental | PEN | 7.800 | 2018 | - | - | 23,518 | - | 2,196 | - | 2,196 | - | - | |
| Banco Scotiabank | PEN | Between 6.350 and 6.390 | 2020 | - | - | 59,494 | 10,874 | 21,258 | 7,810 | 10,382 | 3,064 | 10,876 | |
| Banco Continental | PEN | Between 5.900 and 6.900 | 2019 | - | - | 1,717 | 69 | - | 69 | - | - | - | |
| Banco Santander del Perú | PEN | Between 6.900 and 7.650 | 2022 | - | - | 874 | 686 | - | 165 | - | 521 | - | |
| Banco Scotiabank | PEN | 7.550 | 2019 | - | - | 13,034 | 114 | - | 114 | - | - | - | |
| Banco de Crédito del Perú | PEN | 5.500 | 2021 | - | - | 399 | 370 | - | 130 | - | 240 | - | |
| Banco de Crédito del Perú | PEN | 7.560 | 2020 | - | - | 111 | 75 | - | 37 | - | 38 | - | |
| Banco Continental | PEN | Between 4.500 and 7.500 | 2021 | - | - | 887 | 323 | - | 259 | - | 64 | - | |
| Banco Santander del Perú | PEN | Between 7.250 and 8.550 | 2020 | - | - | 1,756 | 162 | - | 123 | - | 39 | - | |
| | | | | 208 | - | 945,139 | 303,148 | 253,301 | 59,130 | 55,921 | 244,018 | 197,380 | |

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) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | | | | | | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) | S/(000) |
| Notes and Loans (g) | | | | | | | | | | | | |
| Related entities | | | | | | | | | | | | |
| Banco Internacional del Perú-Interbank | PEN | 5.850 | 2020 | - | - | 95,000 | 94,097 | 34,939 | 10,233 | 12,140 | 83,864 | 22,799 |
| Banco Internacional del Perú-Interbank | PEN | 4.700 | 2025 | - | - | 161,950 | 149,302 | - | 26,828 | - | 122,478 | - |
| Non related entities | | | | | | | | | | | | |
| Banco de Crédito del Perú | PEN | Between 3.360 and 6.360 | 2024 | - | - | 217,197 | 163,806 | 171,776 | 33,724 | 8,204 | 130,082 | 163,572 |
| Banco Scotiabank | PEN | Between 3.350 and 6.950 | 2025 | - | - | 735,100 | 621,521 | 141,670 | 94,280 | 41,143 | 527,241 | 100,527 |
| Banco Scotiabank | PEN | 4.700 | 2025 | - | - | 161,950 | 149,326 | - | 26,828 | - | 122,498 | - |
| Banco Scotiabank (i) | PEN | 6.700 | 2019 | - | - | 100,000 | 24,940 | 49,785 | 24,940 | 24,844 | - | 24,941 |
| Bank of Tokyo (h) | USD | Between 2.540 and 2.640 | 2019 | 30,000 | - | - | - | 96,927 | - | - | - | 96,927 |
| Banco Continental | PEN | 4.110 | 2019 | - | - | 17,000 | 17,000 | - | 17,000 | - | - | - |
| Banco de Crédito del Perú | PEN | 3.990 | 2019 | - | - | 32,000 | 15,000 | - | 15,000 | - | - | - |
| Banco Scotiabank | PEN | Between 3.900 and 4.000 | 2019 | - | - | 29,000 | 29,000 | - | 29,000 | - | - | - |
| Banco de Crédito del Perú | PEN | 3.780 | 2019 | - | - | 1,300 | 400 | - | 400 | - | - | - |
| Banco Continental | PEN | 3.970 | 2019 | - | - | 1,473 | 800 | - | 800 | - | - | - |
| Banco Continental | PEN | 4.290 | 2019 | - | - | 1,300 | 1,300 | - | 1,300 | - | - | - |
| Banco Continental | PEN | 3.970 | 2019 | - | - | 900 | 900 | - | 900 | - | - | - |
| Banco Bolivariano | USD | 8.100 | 2020 | 6,000 | - | - | 16,050 | - | 11,826 | - | 4,224 | - |
| Banco Guayaquil | USD | 6.970 | 2019 | 7,000 | - | - | 7,758 | - | 7,758 | - | - | - |
| Banco Internacional | USD | 6.650 | 2019 | 4,500 | - | - | 11,827 | - | 11,827 | - | - | - |
| Banco Pacifico | USD | 7.320 | 2020 | 1,000 | - | - | 1,781 | - | 1,145 | - | 636 | - |
| Banco Pichincha | USD | 8.150 | 2019 | 7,500 | - | - | 25,343 | - | 25,343 | - | - | - |
| Produbanco | USD | 7.710 | 2022 | 5,000 | - | - | 11,440 | - | 3,315 | - | 8,125 | - |
| Banco Pichincha | USD | 7.950 | 2019 | 300 | - | - | 1,014 | - | 1,014 | - | - | - |
| Banco Pichincha | USD | 8.950 | 2019 | 200 | - | - | 676 | - | 676 | - | - | - |
| Banco Continental | COP | 7.920 | 2019 | - | 2,900,000 | - | 3,015 | - | 3,015 | - | - | - |
| | | | | 61,500 | 2,900,000 | 1,554,170 | 1,346,296 | 495,097 | 347,148 | 86,331 | 999,148 | 408,766 |
| Call spread financing, Note 8 | | | | | | | | | | | | |
| Citibank N.A. | USD | 6.473 | 2023 | 21,794 | - | - | 56,532 | - | 13,156 | - | 43,376 | - |
| JP Morgan | USD | 1.840 | 2021 | 18,111 | - | - | - | 9,301 | - | 9,301 | - | - |
| JP Morgan | USD | 10.205 | 2028 | 23,440 | - | - | 76,567 | 32,186 | 5,170 | - | 71,397 | 32,186 |
| Deutsche Bank | USD | 1.560 | 2021 | 9,366 | - | - | - | 19,358 | - | 4,625 | - | 14,733 |
| Bank of Tokyo | USD | 1.200 | 2021 | 1,953 | - | - | - | 4,625 | - | 1,133 | - | 3,492 |
| | | | | 74,664 | - | - | 133,099 | 65,470 | 18,326 | 15,059 | 114,773 | 50,411 |
| Other obligations (j) | | | | | | | | | | | | |
| Hewlett Packard S.A. | USD | Between 1.450 and 5.950 | 2022 | 8,610 | - | - | 9,297 | 11,132 | 5,025 | 5,812 | 4,272 | 5,320 |
| IBM Perú SAC | USD | 2.170 | 2019 | 335 | - | - | 37 | 107 | 37 | 71 | - | 36 |
| Hewlett Packard S.A. | USD | 2.930 | 2021 | 12,084 | - | - | 15,802 | 17,052 | 7,901 | 8,094 | 7,901 | 8,958 |
| Hewlett Packard S.A. | USD | Between 3.300 and 6.200 | 2018 - 2021 | 568 | - | - | 785 | 1,152 | 440 | 426 | 345 | 726 |
| IBM Perú SAC | USD | 2.250 | 2018 | 173 | - | - | - | 39 | - | 39 | - | - |
| Infratech | USD | 5.000 | 2018-2021 | 41 | - | - | 107 | 173 | 76 | 70 | 31 | 103 |
| CSI Renting | USD | Between 2.720 and 5.130 | 2018-2021 | 241 | - | - | 508 | 194 | 221 | 103 | 287 | 91 |
| | | | | 22,052 | - | - | 26,536 | 29,849 | 13,700 | 14,615 | 12,836 | 15,234 |
| Total | | | | 1,558,424 | 2,900,000 | 3,589,609 | 5,069,139 | 2,703,808 | 438,304 | 171,926 | 4,630,835 | 2,531,882 |

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 144 A and Regulation S, for US\$350,000,000 equivalent to S/1,182,650,000 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\$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/3,960,000 as of December 31, 2018.

As a result of these issues, InRetail Shopping Malls must comply, until their maturity and full payment, certain obligations and covenants must be met in this type of transactions.

In the opinion of the 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, 2018. Likewise, 100 percent of the "Senior Notes Unsecured" is guaranteed by the shares of InRetail Real Estate Corp. and Subsidiaries.

- (c) In May 2018, InRetail Pharma S.A., 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/1,351,600,000 that accrues an interest of 5.375 percent per annum, 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 5.780 percent, after considering the respective up-front fees that amounted to US\$6,126,000 equivalent to approximately S/20,701,000 as of December 31, 2018. As of December 31, 2018, the balance of this loan is S/1,330,899,000.

Also, 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, maturing in 7 years and with semiannual interest payments and the principal in a single installment upon maturity of the securities. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 6.559 percent, after considering the respective up-front fees that amounted to S/2,410,000 as of December 31, 2018.

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

Notes to the interim consolidated financial statements (continued)

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, 2018. Likewise, 100 percent of the "Senior Notes Unsecured" is guaranteed by the shares of InRetail Pharma S.A. and Subsidiaries.

- (d) In July 2014, InRetail Real Estate Corp. issued, through InRetail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$350,000,000 equivalent to approximately S/1,135,750,000 as of December 31, 2017, due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.806 percent, after considering the respective up-front fees that amounted to US\$16,636,000 equivalent to approximately S/53,984,000 as of December 31, 2017. Additionally, as of December 31, 2017 the balance is presented net of US\$50,814,000 equivalent to S/164,891,000 as of December 31, 2017, corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2017 the balance of this loan is S/916,875,000.

In April 2018, US\$350,000,000 of the "Senior Notes Unsecured", issued in 2014, were redeemed early by Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls, Subsidiary of the Company, paying a premium US\$7,486,000 equivalent to S/24,148,000. See Note 18 (c).

- (e) Also, in July 2014, InRetail Real Estate Corp. issued, through InRetail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" 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/1,554,000 as of December 31, 2018 (S/1,617,000 as of December 31, 2017). Additionally, as of December 31, 2018 and December 31, 2017, the balance is presented net of S/4,000,000 corresponding to the notes of this issuance held by InRetail Shopping Malls. As of December 31, 2018 the balance of this loan is S/135,446,000 (S/135,383,000 as of December 31, 2017).

- (f) In October 2014 the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$300,000,000 equivalent to approximately S/973,500,000 as of December 31, 2017, due in 2021 at 5.25 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at amortized cost at a 5.5869 percent effective interest rate, after considering the respective up-front fees for approximately US\$3,396,000 equivalent to approximately S/11,020,000 as of December 31, 2017. Additionally, as of December 31, 2017 the balance is presented net of US\$124,526,000 equivalent to a total amount of approximately S/404,086,000 corresponding to notes of this issuance acquired by the Company itself. As of December 31, 2017 the balance of this loan was S/558,394,000. As of December 31, 2018, the "Senior Notes Unsecured" were paid in full.

Also, in October 2014 the Company issued through InRetail Consumer, an offering in the local market and abroad of "Senior Notes Unsecured" for S/250,000,000 due in 2021 at an 6.8125 percent nominal interest rate. This borrowing was recorded in the consolidated financial statements at amortized cost at a 6.8805 percent effective interest rate, after considering the respective up-front fees for approximately S/561,000, as of December 31, 2017. As of December 31, 2017 the balance of this loan was S/249,439,000. As of December 31, 2018, the "Senior Notes Unsecured" were paid in full. See Note 18 (c).

Notes to the interim consolidated financial statements (continued)

- (g) Promissory notes and bank loans are used to fund working capital and do not have any specific guarantee. Leasing operations are guaranteed by the assets related to them; see Note 9 (e). Such obligations do not have any special conditions that must be complied (covenants), or restrictions affecting the operations of the InRetail Group.
- (h) In September 2016, the Company received a loan from Bank of Tokyo for US\$30,000,000 equivalent to S/97,350,000 as of December 31, 2017, with maturity in September 2019 and which bears an annual interest rate of 2.54 percent during the first year and 2.64 during the following two years . This loan was recorded at its amortized cost after considering the respective up-front fees of approximately S/423,000 as of December 31, 2017. In February, 2018, this loan was paid in full. See Note 18 (c) and (d)
- (i) In December 2015, InRetail Shopping Malls received a loan from Bank Scotiabank of Peru S.A.A for S/100,000,000, for a term of 4 years, payable in quarterly installments, at an annual interest rate of 6.70. This loan was recorded at its amortized cost after considering the respective up-front fee of approximately S/60,000 (S/215,000 as of December 31, 2017).

As of December 31, 2018, InRetail Shopping Malls amortized the debt with Scotiabank by S/75,000,000.

- (j) Corresponds to the debt that the Subsidiaries acquired with Hewlett Packard, IBM, CSI Renting and Infratech to purchase computer equipment. Said contracts do not have any specific guarantee.
- (k) During the twelve-month-periods ended December 31, 2018 and 2017, loans and borrowings accrued interest which are recorded in the "Finance costs" caption of the consolidated income statements, see Note 18. Also, as of December 31, 2018 and December 31, 2017, there are interests payable which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (l) Some of the interest-bearing loans and borrowings include standard clauses requiring the InRetail Group to meet financial ratios, use of funds criteria and other administrative matters. In Management's opinion, as of December 31, 2018 and December 31, 2017, standard clauses do not limit the normal operation of the InRetail Group and have been fulfilled.

(m) Financial obligations are payable as follows:

| | 2018 | 2017 |
|--------------|------------------|------------------|
| | S/ (000) | S/ (000) |
| 2018 | - | 171,926 |
| 2019 | 438,304 | 274,939 |
| 2020 | 468,185 | 229,179 |
| 2021 | 229,534 | 1,793,950 |
| 2022 | 239,806 | 41,857 |
| 2023 onwards | 3,693,310 | 191,957 |
| Total | 5,069,139 | 2,703,808 |

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, 2018 and December 31, 2017, as well as the consolidated income statements for the twelve-month periods ended December 31, 2018 and 2017 are shown below:

| Statements of financial position | As of December 31, 2018 | | As of December 31, 2017 | |
|---|-------------------------|----------------|-------------------------|----------------|
| | Assets | Liabilities | Assets | Liabilities |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Supermercados Peruanos S.A. and Subsidiaries | - | 78,734 | - | 80,920 |
| Plaza Vea Oriente | 453 | - | - | - |
| Centro Comercial Estación Central S.A. | 301 | - | - | - |
| Inversiones Real State | - | 631 | - | 632 |
| Real Plaza S.R.L. | 1,521 | - | 1,521 | - |
| Inmobiliaria Puerta del Sol S.R.L. | - | 30,156 | - | 26,846 |
| IR Management S.R.L. | 176 | - | 323 | - |
| InRetail Pharma S.A. (antes Eckerd Perú S.A.) | - | 10,508 | 12,861 | - |
| Eckerd Amazonia S.A.C. | 1,207 | - | - | - |
| Boticas del Oriente S.A.C. | 1,116 | - | - | - |
| Química Suiza S.A.C. | - | 43,312 | - | - |
| Cifarma S.A.C. | - | 36 | - | - |
| Vanttive S.A.C. | 249 | - | - | - |
| Quifatex S.A. | 4,170 | - | - | - |
| Vanttive Cía Ltda. | 37 | - | - | - |
| Quimiza Ltda. | 747 | - | - | - |
| Quideca S.A. | 613 | - | - | - |
| Mifarma S.A.C. | 19,069 | - | - | - |
| Comercializadora Mifarma Ltda. | 62 | - | - | - |
| Albis S.A.C. | 30,132 | - | - | - |
| Jorsa de la Selva S.A.C. | 2,300 | - | - | - |
| Consolidation adjustment | - | 318,239 | 118 | 108,715 |
| Total | 62,153 | 481,616 | 14,823 | 217,113 |

| Statements of comprehensive income | Income tax for the twelve-month periods ended December 31, 2018 and 2017 | |
|------------------------------------|--|------------------|
| | 2018 | 2017 |
| | S/(000) | S/(000) |
| Current | (179,208) | (165,145) |
| Deferred | (17,793) | (22,294) |
| Income tax expense | (197,001) | (187,439) |

- (b) As of December 31, 2018 and December 31, 2017 the provision for current income tax payable, net of advanced payments amounts to approximately S/10,665,000 and S/840,000, respectively.

Also, as of December 31, 2018 and December 31, 2017, non-current income related special purpose entity tax of S/226,493,000 and S/170,336,000, respectively, is payable as a result of the net taxable income from the assets in the trusts, the InRetail Group.

Notes to the interim consolidated financial statements (continued)

15. Equity

- (a) Capital stock –
As of December 31, 2018 and December 31, 2017, the capital stock of InRetail Perú Corp. is represented by 102,807,319 shares with no par value, issued at US\$10.00 each, which were totally paid and issued (equivalent to S/2,138,566,000).
- (b) Capital premium
It corresponds to the difference between the nominal value of shares issued and their offering value. The international offering of new shares, mentioned in paragraph (a) above, was made at a price of US\$20 per share, being the issuance value of shares US\$ 10.00 per share, and recording a capital Premium which is presented net of expenses related to the issuance (professional services of legal advisors, investment bankers, transaction commissions, among others) for approximately S/472,967,000 as of December 31, 2018.
- (c) Treasury shares
As of December 31, 2018, the InRetail Group acquired 1,750,005 Shares issued by InRetail Perú Corp., for approximately S/134,463,000, the nominal value of said shares being S/57,636,000, with the difference of S/76,827,000 being recorded as a decrease in the capital premium (510,729 Shares for approximately S/28,558,000, the nominal value of said shares being S/16,801,000, with the difference of S/11,757,000 being recorded as a decrease in the capital premium as of December 31, 2017).
- (d) Dividends
At the General Shareholders' Meeting held on March 31, 2017 it was agreed to distribute dividends of US\$20,000,000 equivalent to S/64,980,000. Of this amount, S/754,000 corresponds to the dividends related to treasury shares maintained by the Company.

In May 2018, Supermercados Peruanos S.A., a subsidiary of the Company, distributed a dividend to the minority shareholders for an amount of S/26,000.
- (e) Change of ownership in subsidiary
In April 2018, the merger of InRetail Pharma S.A. with IR Pharma S.A.C. (formerly Chakana Salud S.A.C.), generated an exchange of shares for an equity of S/481,500,000, generating an increase in the accumulated results of S/419,001,000 due to a change in the participation of InRetail Pharma S.A.

Notes to the interim consolidated financial statements (continued)

16. Tax Situation

- (a) InRetail Peru Corp. and InRetail Real Estate Corp. are incorporated in Panama, thus they are not subject to any Income Tax.

Entities and individuals not domiciled in Peru must pay an additional tax over dividends received. In this regard, attention to Legislative Decree N° 1261, published on December 10, 2016 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 of the profits generated since January 1, 2017.

- (b) The Subsidiaries of the Company domiciled in Peru, Ecuador, Bolivia and 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, 2018 and December 31, 2017, the income tax rate is:

| Country | % |
|----------|------|
| Peru | 29.5 |
| Ecuador | 22.0 |
| Bolivia | 25.0 |
| Colombia | 33.0 |

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

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

- (i) In first place, 10 percent or more of shares of the non domiciliated company must be sold in a period of twelve months.
 - (ii) In second place, the market value of the Peruvian company's shares must represent 50 percent or more of the market value of the non domiciliated company, in a period of twelve months.
- (d) For purposes of determining the Income Tax, transfer pricing of transactions with related companies and companies domiciled in territories with low or no taxation must be supported with documentation and information on assessment methods applied and criteria considered. Based on the analysis of the operations of the InRetail 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 Group as of December 31, 2018 and December 31, 2017.

Notes to the interim consolidated financial statements (continued)

- (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 Peru Corp. incorporated in Peru and foreign:

| | Income Tax | Value added tax |
|--|-----------------------|----------------------------|
| Albis S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Boticas del Oriente S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Boticas Torres de Limatambo S.A.C | From 2014 to 2018 | From 2015 to 2018 |
| Cifarma S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Droguería La Victoria S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Eckerd Amazonía S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Empresa comercializadora Mifarma Bolivia S.A. | From 2010 to 2018 | From 2010 to 2018 |
| Inmobiliaria Puerta del Sol S.A. | From 2015 to 2018 | From 2015 to 2018 |
| InRetail Pharma S.A. (fomerly Eckerd Perú S.A.) | From 2014 to 2018 | From 2015 to 2018 |
| IR Management S.R.L. | From 2015 to 2018 | From 2015 to 2018 |
| Inversiones Real Estate S.R.L. | From 2014 to 2018 | From 2015 to 2018 |
| Jorsa de la Selva S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Quicorp S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Quideca S.A. | From 2014 to 2018 | From 2016 to 2018 |
| Mifarma S.A.C. | From 2014 to 2018 | From 2015 to 2018 |
| Patrimonio Fideicomiso Mercantil de acciones Quifatex S.A. | From 2015 to 2018 | From 2015 to 2018 |
| Química Suiza Comercial S.A.C. | From 2015 to 2018 | From 2015 to 2018 |
| Química Suiza S.A.C. | From 2016 to 2018 | From 2015 to 2018 |
| Quimiza Ltda. | From 2013 to 2018 | From 2015 to 2018 |
| Real Plaza S.R.L. | From 2015 to 2018 | From 2015 to 2018 |
| Superfarma Mayoristas S.A.C. | From 2016 to 2018 | From 2016 to 2018 |
| Supermercados Peruanos S.A. | From 2013 to 2018 | From 2013 to 2018 |
| Vanttive Cía Ltda. | From 2013 to 2018 | From 2015 to 2018 |
| Vanttive S.A.C. | From 2015 to 2018 | From 2015 to 2018 |
| Farmacias Peruanas S.A.C. | From 2016 to 2018 | From 2016 to 2018 |

According to Peruvian law, InRetail Consumer, InRetail Shopping Malls and Interproperties Holding, special purpose entities, are not considered an income taxpayer due to its status as a trust. InRetail Shopping Malls and Interproperties Holding attribute its generated results, the net losses and Income Tax credits on foreign source income, to the holders of its certificates of participation or whoever holds those rights. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profit earned to date. As of December 31, 2018 and December 31, 2017, the accrued income tax amounted to S/226,493,000 and S/170,336,000, respectively.

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 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.

Notes to the interim consolidated financial statements (continued)

In opinion of Management of the InRetail Group as well as its legal advisors opinion, any eventual additional tax settlement would not be significant to the consolidated financial statements as of December 31, 2018 and December 31, 2017.

- (f) As of December 31, 2018 and 2017, estimated losses from previous periods for Subsidiaries for tax purposes are the following:

| | 2018 | 2017 |
|-----------------------------|----------------|-------------|
| | S/ (000) | S/ (000) |
| Albis S.A.C. | 87,871 | - |
| Jorsa de la Selva S.A.C. | 3,813 | - |
| Superfarma Mayorista S.A.C. | 1,035 | - |
| Vanttive S.A.C. | 674,150 | - |
| Total | 766,869 | - |

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

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

Albis S.A.C., Superfarma Mayorista S.A.C. and Vanttive S.A.C. have chosen method (i) and Jorsa de la Selva S.A.C. by method (ii).

17. Operating expenses

- (a) The table below presents the components of this caption for the twelve-month periods ended December 31, 2018 and 2017:

| | 2018 | 2017 |
|-------------------------|-------------------|------------------|
| | S/(000) | S/(000) |
| Cost of sales | 8,671,018 | 5,416,196 |
| Selling expenses | 2,242,416 | 1,547,436 |
| Administrative expenses | 423,886 | 220,062 |
| Total | 11,337,320 | 7,183,694 |

Notes to the interim consolidated financial statements (continued)

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

| | 2018 | | | |
|---|----------------------|-------------------------|--------------------------------|-------------------|
| | Cost of sales | Selling expenses | Administrative expenses | Total |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods, Note 6 (a) | 986,830 | - | - | 986,830 |
| Subsidiary acquisition | 663,721 | - | - | 663,721 |
| Purchase of goods | 8,476,602 | - | - | 8,476,602 |
| Final balance of goods, Note 6 (a) | (1,696,905) | - | - | (1,696,905) |
| Final balance of raw material, Note 6 (a) | (12,129) | - | - | (12,129) |
| Final balance of miscellaneous supplies, Note 6 (a) | (1,075) | - | - | (1,075) |
| Final balance of finished goods, Note 6 (a) | (672) | - | - | (672) |
| Impairment of inventories, Note 6 (c) | 6,717 | - | - | 6,717 |
| Factory overhead | 22,291 | - | - | 22,291 |
| Cost of services | 221,588 | - | - | 221,588 |
| Personnel expenses | - | 870,220 | 256,941 | 1,127,161 |
| Depreciation, Note 9 (a) | 3,926 | 181,730 | 20,106 | 205,762 |
| Amortization, Note 11 (e) | 124 | 39,866 | 10,687 | 50,677 |
| Key money amortization | - | 5,240 | - | 5,240 |
| Services provided by third parties (b) | - | 394,459 | 76,606 | 471,065 |
| Advertising | - | 123,780 | 227 | 124,007 |
| Packing and packaging | - | 47,916 | 201 | 48,117 |
| Rental of premises | - | 319,907 | 16,754 | 336,661 |
| Taxes | - | 39,962 | 12,086 | 52,048 |
| Provision for doubtful trade receivables, Note 5(g) | - | 10,040 | 1 | 10,041 |
| Recovery of provision for doubtful receivables, Note 5(g) | - | (4,080) | (213) | (4,293) |
| Provision for doubtful others receivables | - | 133 | - | 133 |
| Provision for doubtful others receivables | - | 2,155 | - | 2,155 |
| Recovery of provision for doubtful others receivables | - | (650) | - | (650) |
| Insurance | - | 17,115 | 1,692 | 18,807 |
| Other charges (c) | - | 194,623 | 28,798 | 223,421 |
| Total | 8,671,018 | 2,242,416 | 423,886 | 11,337,320 |
| | 2017 | | | |
| | Cost of sales | Selling expenses | Administrative expenses | Total |
| | S/(000) | S/(000) | S/(000) | S/(000) |
| Initial balance of goods | 962,870 | - | - | 962,870 |
| Purchase of goods | 5,274,896 | - | - | 5,274,896 |
| Final balance of goods | (986,830) | - | - | (986,830) |
| Impairment of inventories, Note 6 (c) | 7,062 | - | - | 7,062 |
| Cost of services | 158,198 | - | - | 158,198 |
| Personnel expenses | - | 570,561 | 130,958 | 701,519 |
| Depreciation, Note 9 (d) | - | 144,655 | 18,011 | 162,666 |
| Amortization, Note 11 (e) | - | 9,635 | 6,575 | 16,210 |
| Key money amortization | - | 956 | - | 956 |
| Services provided by third parties (b) | - | 267,781 | 32,508 | 300,289 |
| Advertising | - | 102,663 | - | 102,663 |
| Packing and packaging | - | 43,195 | 40 | 43,235 |
| Rental of premises | - | 208,270 | 6,690 | 214,960 |
| Taxes | - | 29,693 | 3,994 | 33,687 |
| Provision for doubtful trade receivables, Note 5(g) | - | 4,116 | - | 4,116 |
| Recovery for provision for doubtful receivables, Note 5 (g) | - | (1,103) | - | (1,103) |
| Insurance | - | 9,376 | 1,024 | 10,400 |
| Other charges (c) | - | 157,638 | 20,262 | 177,900 |
| Total | 5,416,196 | 1,547,436 | 220,062 | 7,183,694 |

Notes to the interim consolidated financial statements (continued)

- (b) Correspond mainly to expenses of electricity, water, telephone, premises maintenance services and transport services.
- (c) Mainly include general expenses in stores and shopping centers.

18. Finance costs

(a) The table below presents the components of finance costs:

| | 2018 | 2017 |
|--|----------------|----------------|
| | S/(000) | S/(000) |
| Interest on loans, borrowings and bonds payable | 278,046 | 162,080 |
| Accrual of the cost of structuring of financial obligations | 44,356 | - |
| Accrual of the cost of structuring by early settlement of "Senior Notes Unsecured" (d) | 12,052 | - |
| Premium for early settlement of bonds and cancellation of loans (c) | 77,090 | - |
| Call Spread early settlement, Note 8 (b) | 23,583 | - |
| Premium accrual "Call Spread" | 12,551 | 14,695 |
| Other financial costs | 62,547 | 45,256 |
| Total | 510,225 | 222,031 |

- (b) As of December 31, 2018 and December 31, 2017, there are interest payable for these obligations for approximately S/50,633,000 and S/47,143,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (c) As of December 31, 2018, includes the premium corresponding to: (i) the early redemption of the "Senior Notes Unsecured" issued by InRetail Consumer in Dollars for US\$8,243,000 equivalent to S/26,798,000, (ii) the "Senior Notes Unsecured" issued in Soles by S/26,008,000, (iii) the cancellation of the Bank of Tokyo loan of US\$42,000 equivalent to S/136,000 and (iv) for the "Senior Notes Unsecured" issued by InRetail Shopping Malls in Dollars for US\$7,486,000 equivalent to S/24,148,000.
- (d) As of December 31, 2018, corresponds to the accrual of the structuring costs related to the early redemption of: (i) the "Senior Notes Unsecured" issued by InRetail Consumer in Dollars for US\$3,396,000 equivalent to S/11,071,000, (ii) the "Senior Notes Unsecured" issued in Soles for S/561,000, and (iii) the cancellation of the Bank of Tokyo loan of US\$130,000 equivalent to S/420,000.

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 periods ended as of December 31, 2018 and 2017:

| | 2018 S/(000) | 2017 S/(000) |
|------------------------------|-----------------|-----------------|
| Income | | |
| Sales | 6,325 | 4,466 |
| Rental income | 115,593 | 106,992 |
| Rendering of services | 16,936 | 42,937 |
| Collection of commissions | 18,347 | 12,408 |
| Income from Joint Venture | 29,413 | 18,621 |
| Interest income | 1,751 | 1,364 |
| Sales of fixed assets | 15,523 | 4,798 |
| Other | 47,505 | 44,624 |
| Total | 251,394 | 236,210 |
| Expenses | | |
| Renting of premises and land | 3,120 | 8,521 |
| Reimbursement of expenses | 1,397 | 2,105 |
| Commissions | 3,425 | 2,032 |
| Interest | 5,192 | 5,740 |
| Others | 10,371 | 13,219 |
| Total | 23,505 | 31,617 |

(b) As a result of the transactions with related companies, the InRetail Group recorded the following balances as of December 31, 2018 and December 31, 2017:

| | As of December 31, 2018 S/(000) | As of December 31, 2017 S/(000) |
|---|---------------------------------------|---------------------------------------|
| Receivables | | |
| Homecenters Peruanos S.A. (g) | 15,326 | 3,702 |
| Financiera Oh! S.A. | 9,421 | 4,673 |
| Tiendas Peruanas Oriente S.A. (d) | 9,300 | - |
| Tiendas Peruanas S.A. | 7,978 | 5,800 |
| Intercorp Retail Inc. (h) | 3,639 | 223 |
| Intercorp Perú Ltd. (e) | 3,480 | 552 |
| Bembos S.A.C. | 1,491 | 1,917 |
| Cineplex S.A. | 900 | 1,240 |
| Banco Internacional del Perú S.A.A.-Interbank | 223 | 3,353 |
| Inmobiliaria Milenia S.A. | 24 | 4,262 |
| Bellavista Global Opportunities S.A.C. | - | 2,117 |
| Interseguro Compañía de Seguros S.A. | - | 21,110 |
| Others | 20,718 | 18,937 |
| Total | 72,500 | 67,886 |
| Current | 64,260 | 67,886 |
| Non Current | 8,240 | - |
| Total | 72,500 | 67,886 |

Notes to the interim consolidated financial statements (continued)

| | As of December 31, 2018 S/(000) | As of December 31, 2017 S/(000) |
|--|---------------------------------------|---------------------------------------|
| Payables | | |
| Homecenters Peruanos S.A. (j) | 32,752 | 20,912 |
| Financiera Oh! S.A. (i) | 7,430 | 34,851 |
| Banco Internacional del Perú S.A.A. – Interbank: | | |
| Líneas de crédito y otros | 80 | 17 |
| Depósito en garantía (f) | 6,311 | 5,658 |
| Tiendas Peruanas S.A. | 34 | 1,143 |
| Inmobiliaria Milenia S.A. | 423 | 42 |
| Intercorp Retail Inc. | 22 | 21 |
| Interseguro Compañía de Seguros S.A. | - | 23,031 |
| Horizonte Global Opportunities Perú S.A. | - | 25 |
| Others | 2,959 | 1,074 |
| | 50,011 | 86,774 |
| Remunerations payable to key management | - | - |
| Total | 50,011 | 86,774 |
| Current portion | 11,093 | 60,955 |
| Non-current portion | 38,918 | 25,819 |
| Total | 50,011 | 86,774 |

- (c) The policy of the InRetail Group is to make transactions with related companies at terms equivalent to those that prevail in arm's length transactions.
- (d) As of December 31, 2018 and December 31, 2017, the outstanding to receive of Tiendas Peruanas Oriente S.A.C. corresponds mainly to reimbursements of expenses for the implementation of the store "Pucallpa" for an amount of S/9,724,000, which will be financed at 3 years with a rate of 9 percent per year.
- (e) As of December 31, 2018 and December 31, 2017, the balance receivable from Intercorp Peru Ltd. corresponds to a loan in Soles that includes accrued interest at market rate of 6.625 percent annually.
- (f) Supermercados Peruanos S.A. and Banco Internacional del Perú – Interbank, signed a contract on future leases of financial stores for 15 years in October 2004. This contract amounts to approximately S/27,212,000 (equivalent to approximately US\$8,000,000) which was collected in advance by Supermercados Peruanos S.A. and are presented in the "Deferred revenue" caption in the consolidated statements of financial position.

Additionally, Supermercados Peruanos S.A. received from Banco Internacional del Perú – Interbank US\$2,000,000 as collateral for the contract. As of December 31, 2018 and December 31, 2017, Supermercados Peruanos S.A. has credited the update of the present value of this deposit in the "Financial income" caption. As of December 31, 2018 and December 31, 2017, the net present value of the balances related to guarantee deposits amounts to S/6,311,000 and S/5,658,000, respectively, and is accounted for in the "Other payables" caption.

Notes to the interim consolidated financial statements (continued)

In relation to such contracts, during the twelve-month period ended December 31, 2018 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/843,000 equivalent to US\$264,000 (S/759,000 equivalent to approximately US\$238,000 during the twelve-month periods ended December 31, 2017), which are recorded net of the renting expenses in the "Rental income" caption in the consolidated statements of income.

As of December 31, 2018 Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/785,000 (S/1,611,000 as of December 31, 2017) which will be recognized as income in upcoming periods.

- (g) Corresponds to balances payable by renting land and premises, and pending contributions from the joint venture that it maintains with Supermercados Peruanos, which will be collected in the first quarter of 2019.
- (h) As of December 31, 2018 it corresponds to a loan granted to Intercorp Retail Inc. that accrues an interest rate of 4.5 percent and matures in March 2019.
- (i) In June 2013, Supermercados Peruanos S.A. y Financiera Oh! S.A., a related entity, signed the "Contract of Issuance and Administration of the "Oh! credit card". Said contract established that Financiera Oh! S.A. can exclusively operate its "Oh! credit card" in the Supermercados Peruanos stores, instead of the "Vea" credit card of Banco Internacional del Perú S.A.A. –Interbank, which was operating until that moment. Also, as a result of this agreement, as of December 31, 2018 and December 31, 2017, the InRetail Group holds InRetail accounts payables to Financiera Oh! S.A for S/7,014,000 and S/34,851,000, respectively, which correspond mainly to the collection of installments to user of the Oh! Credit card.
- (j) As of December 31, 2018 mainly includes contributions from the affiliate Homecenters Peruanos S.A. (hereinafter "The associate") for approximately S/32,554,000 (S/20,161,000 as of December 31, 2017), these contributions arise from the joint venture agreement celebrated with the Company which establishes that the associate will deliver cash in favor of the Company in exchange of having a participation in the results of the project Mall "Lurín" and "Tarapoto". These agreements has a term of 60 years, for this reason is recognized as long-term liability.
- (k) Banco Internacional del Perú – Interbank signed leasing and leaseback contracts with Supermercados Peruanos S.A., InRetail Pharma S.A., and Real Plaza S.R.L. with outstanding balances of approximately S/121,318,000, S/4,219,000 and S/171,000 respectively, for the construction of new stores, Real Plaza shopping center building located in Santa Clara and working capital. These leasing contracts accrue annual interest rates that fluctuate between 5.30 and 7.85 percent, and whose maturities are between 2019 and 2022. These transactions are included in "Interest-bearing loans and borrowings". During the twelve-month periods ended December 31, 2018 and 2017, leasing contracts generated interests recorded in the "Financial costs" caption of the consolidated income statements.
- (l) Outstanding balances at the period-end are unsecured and interest free, except for the financial obligations explained in this one. There have been no guarantees provided or received for any related party receivables or payables. As of December 31, 2018 and December 31, 2017, the InRetail Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by evaluating the financial position of the related party and the market in which the related party operates.

Notes to the interim consolidated financial statements (continued)

- (m) The compensation of key management personnel of the InRetail Group for the twelve-month periods ended December 31, 2018 and 2017, is detailed below:

| | 2018 S/(000) | 2017 S/(000) |
|--|------------------------|------------------------|
| Short term employee benefits | 50,349 | 28,345 |
| Insurance and medical benefits | 1,183 | 1,523 |
| Employment benefits for contract termination | <u>6,366</u> | <u>186</u> |
| Total | 57,898 | 29,868 |

- (n) As of December 31, 2018 and December 31, 2017, the InRetail Group maintains the following balances in the cash and cash equivalent and investments at fair value through profit or loss captions:

| | 2018 S/(000) | 2017 S/(000) |
|---|------------------------|------------------------|
| Cash and short-term deposits | | |
| Banco Internacional del Peru – Interbank S.A.A. | 335,904 | 96,973 |
| Inteligo Bank Ltd. | 1,232 | 1,548 |
| Investments at fair value through profit or loss | | |
| Interfondos S.A. Sociedad Administradora de Fondos SAF | 3,031 | 64,424 |
| Fondos Sura SAF S.A.C. | 16,698 | 43,451 |

Notes to the interim consolidated financial statements (continued)

20. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the twelve-month periods attributable to ordinary equity holders of InRetail Perú Corp. 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:

| | <u>Ordinary shares</u> | | |
|--------------------------------------|--|--|--|
| | <u>Outstanding shares</u> | <u>Effective days until period-end</u> | <u>Weighted average of shares</u> |
| Number as of January 1, 2017 | 102,807,319 | 365 | 102,807,319 |
| Number as of December 31, 2017 | 102,807,319 | | 102,807,319 |
| Number as of January 1, 2018 | 102,807,319 | 365 | 102,807,319 |
| Number as of December 31, 2018 | 102,807,319 | | 102,807,319 |
| | <u>For the twelve-month-periods ended December 31, 2018</u> | | |
| | <u>Net income (numerator)</u> S/ | <u>Shares (denominator)</u> | <u>Earnings per share</u> S/ |
| Basic and diluted loss per share | 208,332,000 | 102,807,319 | 2.03 |
| | <u>For the twelve-month-periods ended December 31, 2017</u> | | |
| | <u>Net income (numerator)</u> S/ | <u>Shares (denominator)</u> | <u>Earnings per share</u> S/ |
| Basic and diluted earnings per share | 285,759,000 | 102,807,319 | 2.78 |

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

Notes to the interim consolidated financial statements (continued)

21. Commitments and contingencies

Commitments –

The main commitments assumed are presented below:

- (a) As of December 31, 2018 and December 31, 2017, the InRetail Group has signed renting contracts with third parties for the premises in which some of its stores operate. The assumed commitments correspond to fixed and/or variable monthly rents based on sales, whichever is highest.

The total commitments are assumed to be calculated on the basis of the fixed renting and paid up until 2077.

- (b) As of December 31, 2018 the Company agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/96,031,000, US\$9,726,000 and b\$1,385,000 (S/34,439,000 and US\$8,817,000 as of December 31, 2017), respectively, to comply with the payment of goods purchased to foreign suppliers.

Contingencies –

- (a) Eckerd Amazonía S.A.C. is in the process of claiming 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, 2018 and December 31, 2017.
- (b) InRetail Pharma S.A. maintains certain labor claims for approximately S/2,322,000, mainly related to compensation for arbitrary dismissal, non-payment of social benefits, and reinstatements in the work place, among others. In Management's opinion and its legal advisors, these must be resolved favorably for InRetail Pharma S.A.; consequently, it is not necessary to record additional liabilities for these items.
- (c) Mifarma S.A.C. (formerly Farmacias Peruanas S.A.C.)

- The Peruvian tax Administration (SUNAT) has some objections related to the tax base for income tax and value added tax for the year 2001 in the amount of S/7,111,000. Mifarma S.A.C. (formerly Farmacias Peruanas S.A.C.) has filed a judicial claim before the Tax Court to annul the objection.

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

- In 2006, Peruvian Tax Authority made an assessment related to the income tax base for year 2003 for S/1,296,000. In relation to this amount, the Company filed a claim. In Management's opinion and its legal advisors, such provision is sufficient to cover the observations and has the necessary arguments to refute the observations in order for the claim proceedings to be resolved in favor of the Company.
- In 2011, the Peruvian Tax Authority made some objections related to the base of the income tax for the year 2009 in the amount of S/2,004,000, which results in the reversal of the tax loss that the company had determined for the year.

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

The Company filed a claim an amount of S/2,004,000, as well as the fine plus respective default interest.

Notes to the interim consolidated financial statements (continued)

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.

- (d) Supermercados Peruanos S.A. has been examined by the Tax Authority of Income Tax returns and monthly Value Added Tax returns for the years 2004 to 2010. As of the date of this report, Supermercados Peruanos S.A. has challenged the Tax Administration for these resolutions and, in Management's opinion and its legal advisors, significant liabilities will not arise as result of this situation as of December 31, 2018 and December 31, 2017.

22. Business segments

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

- The supermarkets segment operates supermarkets and hypermarkets nationwide.
- The pharmacies segment is a nationwide supplier of drugs, medicines and cosmetic related products through the chain of pharmacies named "Inkafarma" and Mifarma
- The Manufacturing, Distribution and Marketing segment of drugs, medicines and consumer products.
- Shopping center segment leases commercial stores in shopping centers owned by the InRetail Group.

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, 2018 and December 31, 2017 and for the twelve-month periods ended December 31, 2018 and 2017, InRetail Peru Corp. is mainly organized into four business lines; see Note 2. Transactions between segments are carried out under normal commercial terms and conditions.

As of December 31, 2018 and December 31, 2017 and for the twelve-month periods ended December 31, 2018 and 2017, InRetail Peru Corp. is organized into four main business lines, see Note 2. Transactions between the business segments are carried out under normal commercial terms and conditions. The following table presents the financial information of InRetail Perú Corp. and subsidiaries by business segments for the twelve-month periods ended December 31, 2018 and 2017

| | Supermarkets S/(000) | Pharmacies S/(000) | Manufacturing Distribution and Marketing S/(000) | Shopping Center S/(000) | Total segments S/(000) | Holding accounts, consolidation adjustments and intercompany eliminations S/(000) | Consolidated S/(000) |
|--|-------------------------|-----------------------|---|----------------------------|---------------------------|--|-------------------------|
| For the twelve-month period ended December 31, 2018 | | | | | | | |
| Revenue | | | | | | | |
| External income | 5,129,286 | 4,734,553 | 1,925,383 | 446,679 | 12,235,901 | 6,774 | 12,242,675 |
| Inter-segment | 15,353 | 8,601 | 668,227 | 57,194 | 749,375 | (749,375) | - |
| Total revenue | 5,144,639 | 4,743,154 | 2,593,610 | 503,873 | 12,985,276 | (742,601) | 12,242,675 |
| Cost of sales | (3,775,200) | (3,135,319) | (1,570,993) | (165,211) | (8,646,723) | (24,295) | (8,671,018) |
| Inter-segment | (8,954) | (1,885) | (640,592) | - | (651,431) | 651,431 | - |
| Gross profit | 1,360,485 | 1,605,950 | 382,025 | 338,662 | 3,687,122 | (115,465) | 3,571,657 |
| Join venture income | 29,413 | - | - | - | 29,413 | - | 29,413 |
| Gain on valuation at fair value of investment properties | 2,706 | - | - | 18,137 | 20,843 | (3,443) | 17,400 |
| Selling expenses | (1,026,709) | (1,044,651) | (214,720) | (9,377) | (2,295,457) | 53,041 | (2,242,416) |
| Administrative expenses | (136,045) | (175,606) | (83,060) | (31,276) | (425,987) | 2,101 | (423,886) |
| Other operating (expenses) income, net | (17,831) | (9,643) | (27,824) | 8,984 | (46,314) | 32,650 | (13,664) |
| Operating profit | 212,019 | 376,050 | 56,421 | 325,130 | 969,620 | (31,116) | 938,504 |
| Exchange difference, net | (4,301) | (32,282) | (707) | (2,775) | (40,065) | 1,566 | (38,499) |
| Finance income | 3,704 | 44,730 | 4,062 | 25,462 | 77,958 | (45,849) | 32,109 |
| Finance costs | (77,750) | (178,729) | (21,210) | (172,650) | (450,339) | (59,886) | (510,225) |
| Profit before income tax | 133,672 | 209,769 | 38,566 | 175,167 | 557,174 | (135,285) | 421,889 |
| Income tax expense | (54,721) | (73,889) | (27,430) | (51,820) | (207,860) | 10,859 | (197,001) |
| Profit for the year | 78,951 | 135,880 | 11,136 | 123,347 | 349,314 | (124,426) | 224,888 |
| Attributable to: | | | | | | | |
| Owners of the parent | 78,951 | 135,880 | 11,136 | 123,347 | 349,314 | (140,982) | 208,332 |
| Non-controlling interests | - | - | - | - | - | 16,556 | 16,556 |
| Profit for the year | 78,951 | 135,880 | 11,136 | 123,347 | 349,314 | (124,426) | 224,888 |

Notes to the interim consolidated financial statements (continued)

| | Supermarkets S/(000) | Pharmacies S/(000) | Manufacturing Distribution and Marketing S/(000) | Shopping center 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, 2017 | | | | | | | |
| Revenue | | | | | | | |
| External income | 4,636,947 | 2,733,933 | - | 431,853 | 7,802,733 | 7,441 | 7,810,174 |
| Inter-segment | 15,418 | - | - | 44,001 | 59,419 | (59,419) | - |
| Total revenue | 4,652,365 | 2,733,933 | - | 475,854 | 7,862,152 | (51,978) | 7,810,174 |
| Cost of sales | (3,425,368) | (1,832,630) | - | (156,870) | (5,414,868) | (1,328) | (5,416,196) |
| Gross profit | 1,226,997 | 901,303 | - | 318,984 | 2,447,284 | (53,306) | 2,393,978 |
| Join venture income | 18,621 | - | - | - | 18,621 | - | 18,621 |
| Gain on valuation at fair value of investment properties | 11,267 | - | - | 8,459 | 19,726 | 2,020 | 21,746 |
| Selling expenses | (939,565) | (647,768) | - | (8,067) | (1,595,400) | 47,964 | (1,547,436) |
| Administrative expenses | (115,326) | (65,288) | - | (28,300) | (208,914) | (11,148) | (220,062) |
| Other operating (expenses) income, net | (8,041) | (4,513) | - | 10,727 | (1,827) | - | (1,827) |
| Operating profit | 193,953 | 183,734 | - | 301,803 | 679,490 | (14,470) | 665,020 |
| Exchange difference, net | 6,394 | (2,147) | - | 7,997 | 12,244 | 4,550 | 16,794 |
| Finance income | 3,203 | 6,005 | - | 7,783 | 16,991 | (3,558) | 13,433 |
| Finance costs | (57,836) | (2,503) | - | (114,640) | (174,979) | (47,052) | (222,031) |
| Profit before income tax | 145,714 | 185,089 | - | 202,943 | 533,746 | (60,530) | 473,216 |
| Income tax expense | (59,923) | (58,608) | - | (65,877) | (184,408) | (3,031) | (187,439) |
| Profit for the year | 85,791 | 126,481 | - | 137,066 | 349,338 | (63,561) | 285,777 |
| Attributable to: | | | | | | | |
| Owners of the parent | 85,791 | 126,481 | - | 137,066 | 349,338 | (63,579) | 285,759 |
| Non-controlling interests | - | - | - | - | - | 18 | 18 |
| Profit for the year | 85,791 | 126,481 | - | 137,066 | 349,338 | (63,561) | 285,777 |

Income and expenses of the Company are not allocated to individual segments as the underlying instruments are managed on an InRetail Group basis and are reflected in the adjustments and eliminations column. Additionally, Inter-segment revenues are eliminated upon combination and reflected also in the "Adjustments and eliminations" column.

Geographic information-

As of December 31, 2018 and December 31, 2017, the operations of all the Company's Subsidiaries are mainly carried out in Perú, 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 are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable or settlement value.

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

- (a) Financial instruments whose fair value is similar to book value –
Assets and liabilities that are liquid or have short maturities (less than three months), such as cash and short-term deposits, trade and other receivables, trade and other payables and other current liabilities, approximate to their carrying amounts largely due to the short-term maturities of these instruments. Also, the derivative instrument by the InRetail 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 to fair value through equity–
Fair value of investment through equity is derived from quoted market prices in active markets, if available. Fair value of unquoted available-for-sale financial assets is estimated using a discounted cash flow technique.

Notes to the interim consolidated financial statements (continued)

Fair value hierarchy

The InRetail 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 Group does not maintain any financial instrument with fair value determination under level 3 and there were no transfers between levels during the twelve-month periods ended December 31, 2018 and 2017. The InRetail Group maintains the following financial instruments at fair value:

- Investments to 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

Transactions in foreign currency are carried out using exchange rates prevailing in the market as published by the Superintendence of Banks, Insurance and Pension Funds Administration. As of December 31, 2018 the weighted average exchange rates in the market for transactions in US Dollars were S/3.369 per US\$1.00 bid and S/3.379 per US\$1.00 ask (S/3.238 and S/3.245 per US\$1.00 for bid and ask as of December 31, 2017).

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

| <u>Exchange rate per soles</u> | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------|-------------|
| U. S. Dollars (US\$) | 0.296 | 0.308 |
| Bolivian Peso (b\$) | 2.06 | 2.145 |
| Colombian Peso (\$) | 961.75 | 919.659 |

Notes to the interim consolidated financial statements (continued)

As of December 31, 2018 and December 31, 2017, The InRetail Group held the following foreign currency assets and liabilities:

| | As of December 31, 2018 | | | As of December |
|--|-------------------------|-----------------|---------------------|------------------|
| | US\$(000) | b\$(000) | \$(000) | 31, 2017 |
| | | | | US\$(000) |
| Assets | | | | |
| Cash and short-term deposits | 15,564 | 10,186 | 2,279,790 | 8,158 |
| Investments at fair value through profit or loss | 620 | - | - | 29,114 |
| Investments at fair value through equity | 2,479 | - | - | 9,243 |
| Trade receivables, net | 55,445 | 37,453 | 9,941,230 | 402 |
| Other accounts receivables, net | 8,045 | 5,968 | 286,353 | 4,355 |
| Accounts receivable from related parties | 3,671 | 1,280 | - | 4,763 |
| Total assets | 85,824 | 54,887 | 12,507,373 | 56,035 |
| Liabilities | | | | |
| Trade payables | (94,897) | (24,929) | (6,024,207) | (9,046) |
| Other payables | (24,096) | (12,097) | (1,881,564) | (19,611) |
| Accounts payable to related parties | (2,808) | (1,281) | - | (3,138) |
| Interest - bearing loans and borrowings | (789,399) | - | (2,900,000) | (513,971) |
| Total Liabilities | (911,200) | (38,307) | (10,805,771) | (545,766) |
| Call Spread | 750,000 | - | - | 330,000 |
| Net liability position | (75,376) | 16,580 | 1,701,602 | (159,731) |

- (a) As of December 31, 2018, InRetail Pharma S.A. and InRetail Shopping Malls, subsidiaries of the Company reduced its exchange rate risk with three hedging operations through Call Spreads written over its "Senior Notes Unsecured", which were considered effective hedging instruments. The Call Spreads were written over a nominal amount of US\$400,000,000 and US\$350,000,000, respectively, and were effective until the cancelation of the "Senior Notes Unsecured". See further detail in Note 8.

This instrument covers 100 percent of the exposure in foreign currency of the principal of the issue 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 that of the issue.

- (b) As of December 31, 2017 InRetail Perú Corp. and its Subsidiaries reduced its exchange rate risk with three hedging operations through Call Spreads written over its "Senior Notes Unsecured", which were considered effective hedging instruments. The Call Spreads were written over a nominal amount of US\$100,000,000, US\$30,000,000 and US\$200,000,000, respectively, and were effective until the cancelation of the "Senior Notes Unsecured". See further detail in Note 8.

In February 2018, the Company paid in full the financial obligations of InRetail Consumer covered by the Call Spreads, issued by Bank of Tokyo and Deutsche Bank A.G. for US\$130,000,000, passing this instrument to be registered as trading, recognizing S/3,041,000 as financial expenses. In April 2018, the Call Spread was settled, generating an additional payment of S/3,433,000. See note 18 (a).

In March 2018, the Call Spread with JP Morgan that covered the US\$200,000,000 bond issued by InRetail Shopping Malls was liquidated in advance, generating an exit premium of S/17,109,000. See note 18(a).

Notes to the interim consolidated financial statements (continued)

25. Additional explanation for English translation

The accompanying consolidated financial statements are presented on the basis of the IFRS. Certain accounting practices applied by the InRetail 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.