

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated financial statements as of March 31, 2020 (unaudited) and December 31, 2019 (audited) and for the three-month period ended as of March 31, 2020 and 2019.

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Interim consolidated statements of financial position

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

	Note	2020 S/(000)	2019 S/(000)		Note	2020 S/(000)	2019 S/(000)
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and cash equivalents	4	39,526	31,303	Trade payables	14	39,541	43,305
Investments at fair value through equity	5	146,999	163,454	Other liabilities	15	41,130	75,024
Investments at fair value through profit or loss	6	22,505	8,112	Accounts payable to related parties	26	2,290	491
Trade receivables, net	7	36,979	37,635	Current portion financial obligations	17	73,897	32,257
Other receivables	8	8,441	14,085	Lease liability	16	3,146	2,907
Accounts receivables from related parties	26	27,113	36,105	Total current liabilities		160,004	153,984
Prepaid expenses	9	5,150	673				
Recoverable taxes	10	11,783	14,418	Non-current liabilities			
Total current assets		298,496	305,785	Trade payables	14	16,863	16,258
Non-current assets				Other liabilities	15	15,736	18,499
Accounts receivables from related parties	26	462,708	463,163	Income tax related to special purpose entity	25(e)	406,574	390,761
Deferred income tax, net	18	2,666	2,586	Lease liability	16	204,006	199,719
Recoverable taxes	10	16,650	14,641	Long-term financial obligations	17	1,944,930	1,882,758
Facilities, furniture and equipment, net	11	12,375	10,033	Deferred income tax liabilities, net	18	37,431	37,145
Investment properties	12	4,266,735	4,210,315	Total non-current liabilities		2,625,540	2,545,140
Right-of-use assets, net	16	141,586	143,202	Total liabilities		2,785,544	2,699,124
Intangible assets, net		6,562	6,620	Equity			
Derivative financial instrument	13	92,609	67,405	Capital stock	20	1,475,706	1,475,706
Total non-current assets		5,001,891	4,917,965	Unrealized results		(3,256)	33,210
				Retained earnings		1,042,393	1,015,710
				Total equity		2,514,843	2,524,626
Total assets		5,300,387	5,223,750	Total liabilities and equity		5,300,387	5,223,750

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income

For the three-month period ended as of March 31, 2020 and 2019

	Note	2020 S/(000)	2019 S/(000)
Rental income	21	87,859	86,941
Cost of rental income	22	(11,478)	(11,704)
Net rental income		76,381	75,237
Income from management services	21	40,564	40,336
Cost related to income from management services	22	(35,485)	(30,658)
Net management service income		5,079	9,678
Gross profit		81,460	84,915
Fair value adjustment for investment properties	12(b)	7,473	3,174
Administrative expenses	23	(8,148)	(7,292)
Selling expenses	23	(2,821)	(1,855)
Other operating income (expenses), net		(168)	245
Operating profit		77,796	79,187
Financial income	24	7,289	7,451
Financial expenses	24	(36,705)	(35,176)
Exchange difference, net	27(a)(ii)	(7,328)	2,451
Profit before income tax		41,052	53,913
Income tax	18(a)	(14,369)	(16,311)
Net profit		26,683	37,602
Earnings per share:			
Basic and diluted profit for the period attributable to ordinary equity holders of the parent	20(c)	0.047	0.066

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of other comprehensive income

For the three-month period ended as of March 31, 2020 and 2019

	2020	2019
	\$/(000)	\$/(000)
Profit for the period	26,683	37,602
Other comprehensive income		
Unrealized (loss) gain on investments at fair value through equity	(17,386)	31,393
Income tax related to special purpose entities	(7,561)	(9,418)
Total other comprehensive income of investments at fair value through equity	(24,947)	21,975
Unrealized (loss) gain on hedging derivative financial instrument	(16,456)	22,305
Income tax related to special purpose entities	4,937	(298)
Total other comprehensive income of derivative financial instrument	(11,519)	22,007
Other comprehensive income for the period, net of income tax effects	(36,466)	43,982
Total comprehensive income for the period	(9,783)	81,584

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity

For the three-month period ended as of March 31, 2020 and 2019

	<u>Capital stock</u> S/(000)	<u>Unrealized results</u> S/(000)	<u>Retained earnings</u> S/(000)	<u>Total</u> S/(000)
Balance as of January 1, 2019	1,475,706	(8,717)	760,948	2,227,937
Profit for the period	-	-	37,602	37,602
Other comprehensive income	-	43,982	-	43,982
Total comprehensive income	-	43,982	37,602	81,584
Others	-	-	-	-
Balance as of March 31, 2019	1,475,706	35,265	798,550	2,309,521
Balance as of January 1, 2020	1,475,706	33,210	1,015,710	2,524,626
Profit for the period	-	-	26,683	26,683
Other comprehensive income	-	(36,466)	-	(36,466)
Total comprehensive income	-	(36,466)	26,683	(9,783)
Dividends	-	-	-	-
Balance as of March 31, 2020	1,475,706	(3,256)	1,042,393	2,514,843

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

InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows

For the three-month period ended as of March 31, 2020 and 2019

	2020	2019
	S/(000)	S/(000)
Operating activities		
Revenue	129,454	135,438
Payments of goods and services to suppliers	(35,739)	(37,063)
Payments of salaries and social benefits to employees	(12,145)	(8,196)
Taxes paid	(7,583)	(10,275)
Recovery of taxes	8,253	19,384
Other payments, net	(16,220)	(1,567)
Net cash flows from operating activities	66,020	97,721
Investing activities		
Collection of loans granted to related parties	13,881	7,143
Sale of investments at fair value through profit or loss	55,350	42,575
Purchase of investments at fair value through profit or loss	(69,439)	(33,439)
Purchase of facilities, furniture and equipment	(176)	(51)
Purchase and development of intangible assets	(191)	(193)
Purchase of investment properties	(33,968)	(33,225)
Value Added Tax payment related to investment properties	(6,114)	(5,981)
Net cash flows used in investing activities	(40,657)	(23,171)
Financing activities		
Proceeds from interest-bearing loans and borrowings	63,400	-
Payment of interest-bearing loans and borrowings	(23,601)	(8,602)
Payment of lease liability	(750)	(784)
Interest payment of lease liability	(2,368)	(2,253)
Interests paid	(53,821)	(6,316)
Other payments related to financing activities	-	(845)
Net cash flows used in financing activities	(17,140)	(18,800)
Net increase of cash and short-term deposits	8,223	55,750
Cash and short-term deposits at the beginning of the period	31,303	26,981
Cash and short-term deposits at the end of the period	39,526	82,731
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations	3,302	-
Investment properties purchased through leasing and other financial obligations	14,979	23,482
Initial record of Right-of-use asset	-	145,191
Addition of Right-of-use asset	270	5,676

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the interim consolidated financial statements (unaudited)

Interim unaudited consolidated financial statements as of March 31, 2020 and December 31, 2019 (audited) and for the three-month period ended as of March 31, 2020 and 2019.

1. Business activity

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

As of March 31, 2020 and December 31, 2019 Intercorp Perú holds directly and indirectly 70.80 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

Its management and administrative offices are located at Av. Punta del Este 2403, Jesús Maria, Lima, Perú. However, the Company’s legal address is 50 Street and 74 Street, floor 16 “PH” Building, San Francisco, Republic of Panama.

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

The consolidated financial statements as of March 31, 2020, were approved by the Board of Directors on May 14, 2020.

2. Subsidiaries activities

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

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

Notes to the interim consolidated financial statements (continued)

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

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

Additionally, as of March 31, 2020 and December 31, 2019, Interproperties Holding II owns 100 percent of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)
An entity focused on operating the shopping malls (21 as of March 31, 2020 and December 31, 2019) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

As of March 31, 2020 and December 31, 2019, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca, Pucallpa and Lima.

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

3. Summary of significant accounting policies

3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2019 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

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

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2019.

Notes to the interim consolidated financial statements (continued)

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

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

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

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

3.2 New standards and interpretations adopted by InRetail Real Estate

Several standards and amendments have come into effect from January 1, 2020; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of March 31, 2020.

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

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

Since the changes are applied prospectively to transactions or other events that occur after or after the date of the first adoption, the InRetail Real Estate Group will not be affected by these changes to the transition date.
- (ii) Modifications to IAS 1 "presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors": Material Definition
In October 2018, the IASB issued amendments to IAS 1 "presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" to align the definition of "material" in those standards and clarify certain aspects of the definition. The new definition states that: "Information is material if omitting it, distorting it or hiding it could be expected to influence the decisions that the main users make about the general purpose financial statements."

Notes to the interim consolidated financial statements (continued)

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

- (iii) Modifications to IFRS 9, IAS 39 and IFRS 7 "Reference interest rate", effective for annual periods beginning on January 1, 2020.
- (iv) Modifications to the Conceptual Framework for financial information, effective for annual periods beginning on January 1, 2020.

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

3.3 Significant estimations and assumptions

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

4. Cash and cash equivalent

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Cash	49	38
Current accounts (b)	39,477	31,265
Total	39,526	31,303

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

Notes to the interim consolidated financial statements (continued)

5. Investments at fair value through equity

As of March 31, 2020, the Company has other investments at fair value through equity for an amount of US\$42,707,000 equivalent to S/146,999,000 (US\$49,278,000 equivalent to S/163,454,000 as of December 31, 2019).

6. Investments at fair value through profit or loss

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

Entity	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Mutual funds managed by Sura S.A. SAF	22,505	6,457
Mutual funds managed by Interfondo S.A. SAF	-	1,655
Total	22,505	8,112

As of March 31, 2020 and December 31, 2019, these mutual funds have been invested in a portfolio of financial instruments issued by renowned financial institutions of the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

7. Trade receivables, net

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Rents receivable (b)	33,876	24,000
Unbilled services (c)	10,200	20,620
Documents receivable	2,962	2,463
Total trade receivables	47,038	47,083
Allowance for doubtful accounts (e)	(10,059)	(9,448)
Total trade receivables, net	36,979	37,635

(b) As of March 31, 2020 and December 31, 2019, trade accounts receivable are denominated in Soles and US Dollars, have current maturities and do not accrue interest.

Notes to the interim consolidated financial statements (continued)

- (c) As of March 31, 2020 and December 31, 2019, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.
- (d) As of March 31, 2020 and December 31, 2019 the analysis of trade receivables is as follows:

	Balance as of March 31, 2020		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Unbilled services	10,200	-	10,200
Not past-due	2,030	-	2,030
Past-due			
From 1 to 90 days	23,079	-	23,079
From 91 to 120 days	895	259	1,154
From 121 to 180 days	574	338	912
From 181 to 270 days	200	446	646
More than 271 days	1	9,016	9,017
Total	36,979	10,059	47,038

	Balance as of December 31, 2019		
	Non-impaired S/(000)	Impaired S/(000)	Total S/(000)
Unbilled services	20,620	-	20,620
Not past-due	4,597	15	4,612
Past-due			
From 1 to 90 days	11,950	390	12,340
From 91 to 120 days	167	172	339
From 121 to 180 days	141	300	441
From 181 to 270 days	60	348	408
More than 271 days	100	8,223	8,323
Total	37,635	9,448	47,083

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

Notes to the interim consolidated financial statements (continued)

(e) The movement of the provision for impairment as of March 31, 2020 and 2019 is as follows:

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the year	9,448	8,579
Provision recognized as period expense, note 23(b)	931	178
Recoveries, note 23(b)	(320)	(152)
Exchange difference	-	(2)
Balance at the end of the period	10,059	8,603
Balance as of December 31, 2019		9,448

In the opinion of InRetail Real Estate's Management, the provision for impairment appropriately covers the credit risk as of March 31, 2020 and December 31, 2019.

8. Other receivables

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
By type:		
Outstanding advances (b)	2,656	646
Fund retained - Banco de la Nación (c)	2,854	10,212
Others	2,931	3,227
Total	8,441	14,085

(b) As of March 31, 2020 and December 31, 2019, correspond to advances given to suppliers related to projects for the investments properties.

(c) In accordance with Superintendence Resolution N°183-2004/SUNAT, funds held in Banco de la Nación must be used exclusively for the payments of tax debts, or it is possible to request a cash reimbursement. In the case of the Company and its Subsidiaries, these funds have been used entirely for tax payments.

(d) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of March 31, 2020 and December 31, 2019, as no credit risk has been identified.

Notes to the interim consolidated financial statements (continued)

9. Prepaid expenses

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

	As of March 31, 2020	As of December 31, 2019
	S/(000)	S/(000)
Insurance paid in advance (b)	1,051	86
Municipal taxes prepaid (c)	2,676	-
Others	1,423	587
Total	5,150	673

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

(c) Corresponds mainly to municipal taxes prepaid for real estate.

10. Recoverable taxes

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

	As of March 31, 2020	As of December 31, 2019
	S/(000)	S/(000)
By type:		
Tax credit for value-added-tax (b)	23,370	24,871
Income tax payment	4,144	3,070
Others	919	1,118
Total	28,433	29,059
By term:		
Current	11,783	14,418
Non-current	16,650	14,641
Total	28,433	29,059

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

Notes to the interim consolidated financial statements (continued)

11. Facilities, furniture and equipment, net

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

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Equipment miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
Cost						
Balance as of January 1, 2020	7,381	4,224	720	15,564	375	28,264
Additions	-	-	-	3,478	-	3,478
Balance as of March 31, 2020	<u>7,381</u>	<u>4,224</u>	<u>720</u>	<u>19,042</u>	<u>375</u>	<u>31,742</u>
Accumulated depreciation						
Balance as of January 1, 2020	5,395	3,404	332	9,100	-	18,231
Depreciation of the period, Note 23(b)	134	42	36	924	-	1,136
Balance as of March 31, 2020	<u>5,529</u>	<u>3,446</u>	<u>368</u>	<u>10,024</u>	<u>-</u>	<u>19,367</u>
Net cost as of March 31, 2020	<u>1,852</u>	<u>778</u>	<u>352</u>	<u>9,018</u>	<u>375</u>	<u>12,375</u>
Net cost as of December 31, 2019	<u>1,986</u>	<u>820</u>	<u>388</u>	<u>6,464</u>	<u>375</u>	<u>10,033</u>

(b) As of March 31, 2020 and December 31, 2019, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of March 31, 2020 and December 31, 2019, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on those assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.

Notes to the interim consolidated financial statements (continued)

12. Investment properties

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Real Plaza Salaverry shopping mall (i)	489,494	488,395
Real Plaza Puruchuco shopping mall	631,597	616,960
Real Plaza Chiclayo shopping mall	321,776	317,989
Real Plaza Cusco shopping mall (i)	328,482	306,755
Real Plaza Piura shopping mall	272,628	272,400
Real Plaza Centro Cívico shopping mall (i)	242,357	239,612
Real Plaza Primavera shopping mall	240,407	240,213
Real Plaza Trujillo shopping mall	247,192	246,892
Real Plaza Pucallpa shopping mall	142,564	142,472
Real Plaza Huancayo shopping mall (i)	169,624	169,573
Real Plaza Huánuco shopping mall (i)	134,594	134,551
Real Plaza Santa Clara shopping mall	131,007	130,901
Real Plaza Pro shopping mall	116,791	116,640
Real Plaza Cajamarca shopping mall	101,676	101,663
Real Plaza Juliaca shopping mall (i)	95,316	95,315
Real Plaza Arequipa shopping mall (i)	80,441	80,042
Real Plaza Chorrillos shopping mall	79,459	79,432
Real Plaza Sullana shopping mall	55,227	55,195
Real Plaza Nuevo Chimbote shopping mall	46,096	46,104
Jirón de la Unión	18,676	18,588
Others (ii)	321,331	310,623
Total	4,266,735	4,210,315

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

(ii) Corresponds mainly to lands on which real estate projects will be developed, mainly shopping malls branded “Real Plaza”. In the opinion of InRetail Real Estate’s Management the book values of these investment properties do not differ significantly from their fair values as of March 31, 2020 and December 31, 2019.

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

Notes to the interim consolidated financial statements (continued)

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

	2020 S/(000)	2019 S/(000)
Balance at the beginning of the year	4,210,315	3,671,315
Additions	48,947	56,707
Fair value adjustment	7,473	3,174
Balance at the end of the period	<u>4,266,735</u>	<u>3,731,196</u>
Balance as of December 31, 2019		<u>4,210,315</u>

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

13. Derivative financial instrument

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

Counterparty	Nominal value US\$(000)	Due	Pay fix rate at %	Book value of the hedged item S/(000)	Fair value	Fair value
					2020 S/(000)	2019 S/(000)
J.P. Morgan (a)	350,000	April 2028	1.05	1,204,700	92,609	67,405
Total					<u>92,609</u>	<u>67,405</u>

Notes to the interim consolidated financial statements (continued)

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

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

14. Trade payables

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Bills payable to third parties (b)	44,253	49,037
Provision of services unbilled (c)	12,151	10,526
Total	56,404	59,563
By term:		
Current	39,541	43,305
Non current	16,863	16,258
	56,404	59,563

- (b) As of March 31, 2020 and December 31, 2019, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payables are denominated in Soles and US Dollars, do not accrue interests and their maturities don't exceed the current period.
- (c) Correspond to provisions for services received but unbilled by suppliers, mainly from services provided by construction companies in the last quarter of the period. In the opinion of InRetail Real Estate's Management, provisions are enough to fulfill the liabilities once they are billed.

Notes to the interim consolidated financial statements (continued)

15. Other liabilities

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
By type:		
Interest payable (c)	2,227	26,957
Deferred income (b)	26,130	27,360
Value added tax	1,313	435
Deposits from third parties (d)	4,011	4,226
Workers' profit sharing	280	483
Remunerations and social benefits to be paid	3,096	3,242
Tax payables	1,401	747
Vacations	117	48
Other payables	18,291	30,025
Total	56,866	93,523
By term:		
Current	41,130	75,024
Non-current	15,736	18,499
Total	56,866	93,523

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

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Key money (b.1)	23,018	23,820
Others	3,112	3,540
Total	26,130	27,360

(b.1) As of March 31, 2020 and December 31, 2019, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.

(c) As of March 31, 2020, corresponds mainly to interest payable originated from the private offering of "Senior Notes Unsecured" maturing in 2034 that accrue an annual interest rate of 7.875 percent.

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

(d) As of March 31, 2020 and December 31, 2019, it mainly corresponds to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Pucallpa, Centro Cívico and Nuevo Chimbote.

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

Notes to the interim consolidated financial statements (continued)

16. Leases

- a) The InRetail Real Estate Group maintains leasing contracts for land, buildings and facilities used for its operations. Leases of land, buildings and facilities generally have terms of 1 to 40 years. The InRetail Real Estate Group's obligations under its leases are guaranteed by the lessor's title of the leased assets.

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

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

	Land	Buildings infrastructure and facilities	As of March 31, 2020	As of December 31, 2019
	S/(000)	S/(000)	S/(000)	S/(000)
Cost				
Initial balance	149,932	933	150,865	-
First adoption of IFRS 16	-	-	-	145,189
Additions (d)	270	-	270	5,676
Final balance	<u>150,202</u>	<u>933</u>	<u>151,135</u>	<u>150,865</u>
Accumulated depreciation				
Initial balance	7,401	262	7,663	-
Additions (d)	1,821	65	1,886	7,663
Final balance	<u>9,222</u>	<u>327</u>	<u>9,549</u>	<u>7,663</u>
Net book value	<u>140,980</u>	<u>606</u>	<u>141,586</u>	<u>143,202</u>

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

	2020 S/(000)	2019 S/(000)
Cost of sales, Note 22 (a)	1,886	1,916
Balance as of March 31	<u>1,886</u>	<u>1,916</u>
Balance as of December 31, 2019		<u>7,663</u>

Notes to the interim consolidated financial statements (continued)

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

	<u>As of March 31, 2020</u>	<u>As of December 31, 2019</u>
	S/(000)	S/(000)
Initial balance	202,626	-
First adoption of IFRS 16	-	202,156
Additions	270	7,076
Increase for accrued interest, Note 19	2,368	9,225
Amortization	(3,370)	(13,197)
Extinguishment of part of a lease liability	(33)	-
Foreign currency translation	5,291	(2,634)
Final balance	<u>207,152</u>	<u>202,626</u>
Current	3,146	2,907
Non-current	204,006	199,719
Final balance	<u>207,152</u>	<u>202,626</u>

Additionally, in the three-month period ended as of March 31, 2020 and 2019, interest related to the lease liability of S/2,368,000 and S/2,253,000 respectively, has been accrued.

Notes to the interim consolidated financial statements (continued)

17. Financial obligations

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

Type of Obligation	Original		Final maturity	Original Amount		Total		Current		Non-current	
	Currency	Interest Rate %		US\$ (000)		As of March	December 31,	As of March	December 31,	As of March	December 31,
				S/(000)	S/(000)	31, 2020	2019	31, 2020	2019	31, 2020	2019
Bonds issuance											
Senior Notes Unsecured (b)	USD	5.750	2028	350,000	-	1,129,723	1,087,035	-	-	1,129,723	1,087,035
Senior Notes Unsecured (c)	PEN	7.875	2034	-	141,000	135,532	135,514	-	-	135,532	135,514
Senior Notes Unsecured (b)	PEN	6.563	2028	-	313,500	309,942	309,859	-	-	309,942	309,859
				350,000	454,500	1,575,197	1,532,408	-	-	1,575,197	1,532,408
Leasings											
Related entities											
Banco Internacional del Perú-Interbank	USD	4.300	2022	194	-	78	197	28	142	50	55
Non-related entities											
Scotiabank Perú S.A.A.	PEN	5.350	2025	-	255,246	255,246	239,970	-	-	255,246	239,970
Hewlett Packard S.A.	USD	Between 3.300 and 6.200	2020 - 2023	1,331	-	4,815	2,176	2,255	1,330	2,560	846
CSI Renting	USD	Between 2.720 and 5.130	2020 - 2023	354	-	579	650	262	280	317	370
Infratech	USD	5.000	2020	66	-	12	37	12	37	-	-
				1,945	255,246	260,730	243,030	2,557	1,789	258,173	241,241
Promissory notes and loans											
Non-related entities											
Scotiabank Perú S.A.A. (d)	PEN	5.250	2027	-	50,000	49,609	49,589	4,930	4,932	44,679	44,657
Banco de Crédito del Perú	USD	2.840	2020	5,999	-	-	19,902	-	19,902	-	-
Banco de Crédito del Perú	PEN	3.560	2020	-	35,000	35,000	-	35,000	-	-	-
Banco de Crédito del Perú	PEN	4.140	2020	-	10,900	10,900	-	10,900	-	-	-
Scotiabank Perú S.A.A.	PEN	3.400	2020	-	17,500	17,500	-	17,500	-	-	-
Call Spread financing, Note 13											
JP. Morgan	USD	10.205	2028	23,440	-	69,891	70,086	3,010	5,634	66,881	64,452
				29,439	113,400	182,900	139,577	71,340	30,468	111,560	109,109
Total				381,384	823,146	2,018,827	1,915,015	73,897	32,257	1,944,930	1,882,758

Notes to the interim consolidated financial statements (continued)

- (b) In April, 2018, Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls, Subsidiary of the Company, has issued debt instruments ("Notes") denominated in US Dollars through a private offer to institutional investors under Rule 144A and Regulation S, for US\$350,000,000, equivalent to S/1,204,700,000 as of March 31, 2020 (S/1,160,950,000 as of December 31, 2019) that accrues an annual interest of 5.75 percent, 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\$21,783,000 equivalent to approximately S/74,977,000 as of March 31, 2020 (US\$22,283,000 equivalent to approximately S/73,915,000 as of December 31, 2019).

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 paying 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/3,558,000 as of March 31, 2020 (S/3,641,000 as of December 31, 2019).

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

In the opinion of the Management, these covenants do not limit operations of the Company and its Subsidiaries and have been complied satisfactorily and are within the agreed limits as of March 31, 2020 and December 31, 2019.

- (c) 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/1,468,000 as of March 31, 2020 (S/1,486,000 as of December 31, 2019). Additionally, as of March 31, 2020 and December 31, 2019, the balance is presented net of S/4,000,000 corresponding to the notes of this issuance held by InRetail Shopping Malls. As of March 31, 2020 and December 31, 2019, the balance of this loan is S/135,532,000 and S/135,514,000, respectively.

- (d) In October 2019, the Company acquired a new loan agreement with Scotiabank del Perú S.A.A. of S/50,000,000. In February 2020, the term of the debt was restructured for a period of seven years, payable in quarterly installments and with accrued annual interest rate of 5.25 percent.

This obligation was recorded in the consolidated financial statements at amortized cost with an effective annual interest rate of 5.455 percent after considering the respective initial charge of approximately S/391,000 as of March 31, 2020 (S/411,000 as of December 31, 2019).

- (e) Financial obligations are payable as follows:

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
2020	73,897	32,257
2021	11,422	6,928
2022	13,378	7,103
2023	12,820	7,594
2024	13,493	8,234
2025	269,584	249,013
2026 onwards	1,624,233	1,603,886
Total	2,018,827	1,915,015

Notes to the interim consolidated financial statements (continued)

18. Income tax

- (a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of March 31, 2020 and December 31, 2019, as well as those presented in the consolidated statement of income for the three months periods ended March 31, 2020 and 2019, is detailed as follows:

Statements of financial position	As of March 31, 2020		As of December 31, 2019	
	Assets S/(000)	Liabilities S/(000)	Assets S/(000)	Liabilities S/(000)
Real Plaza S.R.L.	2,342	-	2,261	-
Inversiones Real Estate S.A.	-	632	-	631
Centro Comercial Estación Central S.A.	324	-	325	-
Inmobiliaria Puerta del Sol S.A.	-	36,799	-	36,514
Total	2,666	37,431	2,586	37,145

Statements of comprehensive income	Income tax for the three-month period ended March 31, 2020 and 2019	
	2020 S/(000)	2019 S/(000)
Current	(14,163)	(16,064)
Deferred	(206)	(247)
Total	(14,369)	(16,311)

Notes to the interim consolidated financial statements (continued)

19. Commitments

As of March 31, 2020, corresponds to guarantee letters in favor of third parties for approximately S/9,219,000 and US\$3,718,000 (S/9,045,000 and US\$1,710,000 as of December 31, 2019), which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

20. Equity

(a) Capital stock –

As of March 31, 2020 and December 31, 2019, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$1.00 each.

(b) Earnings per share –

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

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

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 1, 2019	568,201,039	90	568,201,039
Number as of March 31, 2019	568,201,039		568,201,039
Number as of January 1, 2020	568,201,039	90	568,201,039
Number as of March 31, 2020	568,201,039		568,201,039
	For the three-month period ended March 31, 2020		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	26,683,000	568,201,039	0.047
	For the three-month period ended March 31, 2019		
	Net income (numerator)	Shares (denominator)	Earnings per share
	S/		S/
Basic and diluted earnings per share	37,602,000	568,201,039	0.066

Notes to the interim consolidated financial statements (continued)

21. Income from real estate service

- (a) The composition of the balance for the three-month period ended as of March 31, 2020 and 2019 is presented below:

	2020 S/(000)	2019 S/(000)
Rental income		
Rental income (b)	82,637	82,661
Rent of space for publicity	3,537	2,778
Key money	1,685	1,502
Total	87,859	86,941
Income from management services		
Common expenses (c)	17,764	17,532
Electricity and water (d)	14,665	14,352
Promotion and advertisement (e)	4,531	4,606
Parking	2,378	2,532
Management services	242	265
Others	984	1,049
Total	40,564	40,336

- (b) As of March 31, 2020 and 2019, corresponds to rental income from the economic exploitation of the "Real Plaza" shopping malls.

The composition of the rental income is presented below:

	2020 S/(000)	2019 S/(000)
Fixed rental income	71,634	70,163
Variable rental income	11,003	12,498
Total	82,637	82,661

- (c) Corresponds to income from common expenses including expenses of maintenance, safety management and supervision of shopping malls, which are billed to each tenant according to the terms established in the lease contract.
- (d) Corresponds to income from electricity and water that are assumed by the Company and are then billed to every tenant of the shopping malls.
- (e) Corresponds to income from advertising and promotional activities of the Real Plaza shopping malls, which are billed to every tenant of the shopping malls according to the terms established in the lease contract.

Notes to the interim consolidated financial statements (continued)

22. Costs of rental income and management services

(a) The composition of this caption for the three-month period ended as of March 31, 2020 and 2019 is presented below:

	2020 S/(000)	2019 S/(000)
Cost of rental income		
Landlord leases (b)	3,575	4,136
Depreciation from right-of-use asset, Note 16(b)	1,886	1,916
Property tax and duties	4,295	4,278
Property insurance costs	1,535	1,272
Others	187	102
Total	11,478	11,704
Cost related to income from management services		
Electricity and water	13,389	12,514
Maintenance and administration of parking lot	4,765	4,244
Advertising and marketing	4,261	4,139
Personnel expenses	4,315	3,783
Cleaning services	3,762	2,888
Safety services	3,600	2,125
Leases, professional fees and communications	1,002	648
Other costs	391	317
Total	35,485	30,658

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

23. Selling and administrative expenses

(a) The composition of this caption for the three-month period ended as of March 31, 2020 and 2019 is presented below:

	2020 S/(000)	2019 S/(000)
Administrative expenses	8,148	7,292
Selling expenses	2,821	1,855
Total	10,969	9,147

Notes to the interim consolidated financial statements (continued)

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

	2020		
	Selling expenses	Administrative expenses	Total
	S/(000)	S/(000)	S/(000)
Personnel expenses	1,817	4,949	6,766
Depreciation, Note 11 (a)	-	1,136	1,136
Amortization	-	249	249
Services provided by third parties	22	918	940
Allowance for doubtful accounts, Note 7 (e)	931	-	931
Recovery of allowance for doubtful accounts, Note 7 (e)	(320)	-	(320)
Other charges	371	896	1,267
Total	2,821	8,148	10,969

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

Notes to the interim consolidated financial statements (continued)

24. Financial income and expenses

(a) The composition of this caption for the three-month period ended as of March 31, 2020 and 2019 is presented below:

	2020 S/(000)	2019 S/(000)
Income		
Interest on deposits	95	3
Interest from loans granted	7,031	7,143
Others	163	305
Total	7,289	7,451
	2020 S/(000)	2019 S/(000)
Expenses		
Bond interest expenses	24,929	24,282
Interest from leasing and others	4,162	5,063
Debt structuring expenses	2,131	1,757
Accrual of the Call Spread premium	2,272	1,011
Interest from lease liabilities	2,368	2,253
Other	843	810
Total	36,705	35,176

25. Tax situation

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

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

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

(b) Real Plaza and Inmobiliaria Puerta del Sol are domiciled in Perú and are subject to the Peruvian tax system and, in compliance with current Peruvian legislation calculate their income tax on the basis of their separate financial statements. As of March 31, 2020 and December 31, 2019, the statutory income tax rate was 29.5 percent on tax payable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

Notes to the interim consolidated financial statements (continued)

- (c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:
- (i) In first place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months and,
 - (ii) In second place, 10 percent or more of the shares of the non-resident must be sold in any twelve month period;
- (d) Transactions entered within related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail Real Estate, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of March 31, 2020 and December 31, 2019.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	Income Tax	Value added tax
Real Plaza S.R.L.	2015 and 2017 to 2019	From 2015 to 2019
Inmobiliaria Puerta del Sol S.A.	From 2015 to 2019	From 2015 to 2019
Inversiones Real Estate S.A.	From 2015 to 2019	From 2015 to 2019
Centro Comercial Estación Central S.A.	From 2015 to 2019	From 2015 to 2019

In accordance with Peruvian law, InRetail Shopping Malls, Interproperties Holding and Interproperties Holding II, Special Purpose Entities, are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profits earned to date. As of March 31, 2020 and December 31, 2019, the accrued income tax amounted to S/406,574,000 and S/390,761,000, respectively.

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

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of March 31, 2020 and December 31, 2019.

Notes to the interim consolidated financial statements (continued)

26. Transactions with related companies

(a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of March 31, 2020 and December 31, 2019:

	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Receivables		
InRetail Perú Corp. (d)	402,500	409,478
Tiendas Peruanas Oriente S.A.C.	6,119	6,957
Tiendas Peruanas S.A.	9,068	6,395
Homecenters Peruanos S.A. (e)	28,374	28,014
Supermercados Peruanos S.A. (e)	32,314	34,650
Bembos S.A.C.	641	751
IR Management S.R.L.	3	-
Cineplex S.A.	1,979	613
Homecenters Peruanos Oriente S.A.C.	15	2
Banco Internacional del Perú S.A.A.- Interbank	1,858	2,059
Plaza Veá Oriente S.A.C.	327	1,272
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	843	1,105
Mifarma S.A.C.	59	19
Others	5,721	7,953
Total	489,821	499,268
Current	27,113	36,105
Non Current	462,708	463,163
	489,821	499,268
	As of March 31, 2020 S/(000)	As of December 31, 2019 S/(000)
Payables		
Supermercados Peruanos S.A.	552	326
Homecenters Peruanos S.A.	587	64
IR Management S.R.L.	762	32
Homecenters Oriente S.A.C.	138	10
Tiendas Peruanas S.A.	-	8
Others	251	51
	2,290	491
Financial Obligations		
Leasing:		
Banco Internacional del Perú - Interbank	78	197

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

Notes to the interim consolidated financial statements (continued)

- (b) As of March 31, 2020 and December 31, 2019, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/15,634,000 and S/23,707,000, respectively.
- (c) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.
- (d) In April 2018, InRetail Shopping Malls, subsidiary of the Company, granted a loan to InRetail Perú Corp. of S/402,500,000 that accrues an effective annual interest rate of 6.90 percent and matures in March 2028.

As of March 31, 2020 and 2019, it includes S/6,902,000 y S/6,864,000 corresponding to accrued interest. In March 2020, the Company collected one interest installment for a total of S/13,881,000 (as of December 31, 2019, it maintained an interest balance of S/6,978,000).

- (e) As of March 31, 2020 and December 31, 2019, it corresponds mainly to the account receivable that Interproperties Perú maintains with Supermercados Peruanos S.A. and Homecenters Peruanos S.A. for an amount of S/30,264,000 and S/26,897,000, respectively (S/30,410,000 and S/27,003,000 as of December 31, 2019, respectively). These accounts receivable are due to the fact that Interproperties Peru acts as an intermediary between the lessor (unrelated third party) and the related companies to whom the property is leased.

27. Financial risks management

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

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

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

- (a) Market risk –
 - It is the risk that the fair values of the future cash flows of a financial instrument fluctuate due to changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and investments in shares risk. In the case of InRetail Real Estate, the financial instruments affected by market risks include loans, which are exposed to currency risk and interest rate risk.
- (i) Interest rate risk –
 - It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtainment of debt with fixed interest rate. As of March 31, 2020 and December 31, 2019, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

Notes to the interim consolidated financial statements (continued)

(ii) Exchange rate risk –

It is the risk that the fair values of future cash flows of a financial instrument fluctuate due to changes in exchange rates. The exposure of InRetail Real Estate to exchange rate risk is related mainly to the operating activities of InRetail Real Estate related to rental income in foreign currency and financial obligations.

As of March 31, 2020 and December 31, 2019, assets and liabilities by currency were the following (expressed in Thousands US Dollars):

	As of March 31, 2020 US\$(000)	As of December 31, 2019 US\$(000)
Assets		
Cash and cash equivalents	2,454	1,846
Investment at fair value through profit or loss	-	2,450
Investments at fair value through equity	42,707	49,278
Trade receivables, net	270	1,087
Other receivables, net	191	53
Accounts receivable from related parties	1,604	2,157
Total assets	47,226	56,871
Liabilities		
Trade payables	(2,362)	(3,249)
Other liabilities	(862)	(6,333)
Accounts payable to related parties	(46)	(74)
Lease liability	(42,020)	(42,332)
Financial obligations	(350,116)	(355,768)
Total liabilities	(395,406)	(407,756)
Call Spread	350,000	350,000
Net asset (liability) position	1,820	(885)

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

The Call Spread is written over a nominal amount of US\$350,000,000 as of March 31, 2020 and December 31, 2019, protects it from exchange rate fluctuations between S/3.26 and S/3.75 and will be effective until maturity of the “Senior Notes Unsecured”. See further detail in Note 13 and 17.

Transactions in foreign currency are performed at free market exchange rates. As of March 31, 2020, the market end of period exchange rate for transactions in US dollars was S/3.433 per US\$1.00 bid and S/3.442 per US\$1.00 ask (S/3.311 per US\$1.00 bid and S/3.317 per US\$1.00 ask as of December 31, 2019).

Notes to the interim consolidated financial statements (continued)

For the three-month period ended as of March 31, 2020, InRetail Real Estate incurred into a net loss for exchange difference of approximately S/7,328,000 (net gain of S/2,451,000 as of March 31, 2019), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

(b) Credit risk –

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

Credit risk related to accounts receivable –

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

Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of March 31, 2020 and December 31, 2019, is the book value of the balances of cash and cash equivalent.

(c) Liquidity risk –

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

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

28. Fair value of financial instruments –

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

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

Notes to the interim consolidated financial statements (continued)

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

- (a) Financial instruments whose fair value is similar to their book value-
For financial assets and liabilities that are liquid or have short-term maturities (less than three-months), such as cash and cash equivalents, trade receivables, accounts receivable to related parties and other receivables, trade accounts payable and other current liabilities, it is deemed that their book values are similar to their fair values.
- (b) Financial instruments at fixed rate –
The fair value of the financial assets and liabilities at fixed rate and at amortized cost is determined by comparing the market interest rate at the moment of their initial recognition to the current market rates related to similar financial instruments. The estimated fair value of financial obligations that accrue interests is determined through discounted cash flows by using the currently available rates for debts with similar conditions, credit risk and maturities.

29. Subsequent event

In March 2020, the World Health Agency "WHO" declared the coronavirus outbreak as a pandemic. In turn, the Peruvian authorities, where the Company and its Subsidiaries carry out their operations, are taking the necessary measures to prevent the spread of the virus. The Company and its Subsidiaries have taken all the appropriate measures to safeguard the health of workers and ensure their critical processes. However, as of the date of the financial statements, given the uncertainty and the rapid evolution of the circumstances explained above, including the potential actions that could be taken to contain it; it is not possible to predict the extent to which it will negatively affect the operation and financial results of the Company and its Subsidiaries in the future, even more so if it continues over time.

30. 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.