

InRetail Perú Corp. and Subsidiaries

Interim consolidated financial statements as of September 30, 2018 (unaudited) and December 31, 2017 (audited) and for the nine-month periods ended September 30, 2018 and 2017

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Interim consolidated statements of financial position

As of September 30, 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	683,774	280,381	Trade payables	12	2,762,221	1,632,226
Investments at fair value through profit or loss		2,354	288,641	Other payables		569,423	297,560
Trade receivables, net	5	610,699	113,113	Accounts payable to related parties	19(b)	45,113	60,955
Other receivables, net		132,741	62,458	Current income tax	14(b)	1,776	840
Accounts receivables from related parties	19 (b)	67,580	67,886	Interest-bearing loans and borrowings	13	561,733	171,926
Inventories, net	6	1,593,412	1,003,439	Deferred revenue		7,553	7,074
Available-for-sale financial investments	7	8,233	29,993	Total current liabilities		3,947,819	2,170,581
Prepayments		40,016	23,450				
Taxes recoverable		150,759	28,276	Non current liabilities			
Total current assets		3,289,568	1,897,637	Trade payables		-	8,539
				Accounts payable to related parties	19(b)	30,796	25,819
				Other payables		2,297	-
				Interest-bearing loans and borrowings	13	4,494,440	2,531,882
				Income tax related to Special Purpose Entities	14 (b)	205,812	170,336
				Deferred revenue		33,834	32,759
				Deferred income tax liabilities, net	14(a)	290,404	217,113
				Reserves for employee retirement pension funds		20,551	-
				Total non-current liabilities		5,078,134	2,986,448
				Total liabilities		9,025,953	5,157,029
Non-current assets				Equity			
Other receivables, net		30,521	16,427	Capital stock	15(a)	2,138,566	2,138,566
Prepayments		55,810	26,366	Treasury shares	15(c)	(51,614)	(16,801)
Taxes recoverable		5,921	19,486	Capital premium	15(b)	482,724	538,036
Derivative financial instruments	8	134,610	51,710	Unrealized results on financial instruments derivatives		(14,948)	(1,051)
Property, furniture and equipment, net	9	3,387,058	2,723,060	Unrealized results from available for-sale-investments		197	1,400
Investment properties	10	3,215,210	2,870,002	Unrealized results from foreign currency translation		(2,486)	-
Intangible assets, net	11	2,969,231	1,196,749	Retained earnings		1,503,754	999,231
Deferred income tax assets, net	14(a)	64,986	14,823	Equity attributable to owners of the parent		4,056,193	3,659,381
Other assets		138	367	Non-controlling interest		70,907	217
Total non-current assets		9,863,485	6,918,990	Total equity		4,127,100	3,659,598
Total assets		13,153,053	8,816,627	Total liabilities and equity		13,153,053	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 nine-month periods ended September 30, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Net sales of goods		8,371,822	5,288,900
Rental income		306,472	253,695
Rendering of services		218,132	147,869
Revenue		8,896,426	5,690,464
Cost of sales	17(a)	(6,304,916)	(3,954,971)
Gross profit		2,591,510	1,735,493
Income from joint venture	19(a)	19,664	18,061
Gain on valuation at fair value of investment properties	10(b)	9,609	3,763
Selling expenses	17(a)	(1,626,222)	(1,140,547)
Administrative expenses	17(a)	(339,807)	(164,164)
Other operating income (expenses), net		(2,654)	(6,603)
Operating profit		652,100	446,003
Financial income		22,110	8,968
Financial expenses	18(a)	(409,833)	(162,507)
Exchange difference, net		(35,341)	14,093
Profit before income tax		229,036	306,557
Income tax expense	14(a)	(134,464)	(123,157)
Net profit		94,572	183,400
Attributable to:			
InRetail Perú Corp. Shareholders		85,522	183,390
Non-controlling interest		9,050	10
Net profit		94,572	183,400
Earnings per share:			
Basic and diluted profit for the period attributable to ordinary equity holders of the parent	20	0.83	1.78

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 nine-month periods ended September 30, 2018 and 2017

	2018 S/(000)	2017 S/(000)
Profit for the period	94,572	183,400
Other comprehensive income		
Unrealized (loss) gain on available-for-sale investments	(301)	982
Transfer of unrealized gain on investments available for sale to income for the period	(1,289)	-
Income tax related to Special Purpose Entities	387	(213)
	(1,203)	769
Unrealized gain on hedging derivative financial instrument	(16,565)	14,118
Transfer of realized loss on available-for-sale investments to result of the period	9,490	-
Income tax related to Special Purpose Entities	(8,769)	5,851
Income tax	1,485	-
	(14,359)	19,969
Unrealized results from foreign currency translation	(2,857)	-
	(2,857)	-
Other comprehensive income for the period, net of income tax effects	(18,419)	20,738
Total comprehensive income for the period	76,153	204,138
Attributable to:		
InRetail Perú Corp. shareholders	67,936	204,128
Non-controlling interest	8,217	10
Total comprehensive income for the period	76,153	204,138

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 nine-month periods ended September 30, 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 available for-sale- investment 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	-	-	-	-	-	-	183,390	183,390	10	183,400
Other comprehensive income	-	-	-	19,969	769	-	-	20,738	-	20,738
Total comprehensive income	-	-	-	19,969	769	-	183,390	204,128	10	204,138
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	-	-	-	-	-	-	(38)	(38)	-	(38)
Balance as of September 30, 2017	2,138,566	(16,801)	538,036	(5,481)	1,442	-	896,855	3,552,617	209	3,552,826
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	-	-	-	-	-	-	85,522	85,522	9,050	94,572
Other comprehensive income	-	-	-	(13,897)	(1,203)	(2,486)	-	(17,586)	(833)	(18,419)
Total comprehensive income	2,138,566	2,138,566	-	(13,897)	(1,203)	(2,486)	85,522	67,936	8,217	76,153
Effect due to change of ownership in subsidiary	-	-	-	-	-	-	419,001	419,001	62,499	481,500
Purchase of treasury shares	-	(34,813)	(55,312)	-	-	-	-	(90,125)	-	(90,125)
Dividends	-	-	-	-	-	-	-	-	(26)	(26)
Balance as of September 30, 2018	4,277,132	2,086,952	482,724	(14,948)	197	(2,486)	1,503,754	4,056,193	70,907	4,127,100

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

InRetail Perú Corp. and Subsidiaries

Interim consolidated statements of cash flows

For the nine-month periods ended September 30, 2018 and 2017

	2018 S/(000)	2017 S/(000)
Operating activities		
Revenue	8,925,864	5,744,492
Recovery of taxes	42,971	32,260
Payments of goods and services to suppliers	(6,976,736)	(4,710,256)
Payments of salaries and social benefits to employees	(854,652)	(515,318)
Taxes paid	(166,832)	(98,919)
Other payments, net	(21,851)	(9,090)
Net cash flows from operating activities	948,764	443,169
Investing activities		
Sale of property, furniture and equipment	16,522	54
Loan collected from related parties	4,161	74,056
Sale of investments at fair value through profit or loss	445,695	387,041
Sale of available-for-sale investments	67,122	-
Acquisition of subsidiaries	(1,873,510)	-
Purchase of investments at fair value through profit or loss	(153,027)	(448,935)
Purchase of investment properties, net of acquisitions through leasing contracts	(342,895)	(84,975)
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(243,893)	(200,852)
Value added tax payment related to investment properties	(36,489)	(10,089)
Loans granted to related parties	-	(79,774)
Purchase and development of intangible assets	(38,055)	(12,940)
Net cash flows used in investing activities	(2,154,369)	(376,414)
Financing activities		
Proceeds from interest-bearing loans and borrowings	4,470,525	393,831
Proceeds from bond issuances, net of up-front fees and notes acquired by Company itself	2,097,012	-
Sales of treasury bonds	5,810	-
Sales of treasury shares	-	39,186
Non controlling share capital contribution	481,500	-
Payment of bonds issued	(866,702)	-
Repayment of interest-bearing loans and borrowings	(4,249,353)	(345,413)
Interest paid	(162,551)	(136,214)
Payment of premium for repurchase of bonds issued	(77,092)	-
Purchase of treasury shares	(90,125)	-
Dividend payment	(26)	(64,226)
Net cash flows from (used in) financing activities	1,608,998	(112,836)
Net increase (decrease) of cash and short-term deposits	403,393	(46,081)
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	683,774	197,474
Non-cash transactions		
Fixed assets purchased through leasing and other financial obligations and non financial	129,202	109,248

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 September 30, 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 September 30, 2018 the percentages of ownership are:

Owner	Ownership %
Intercorp Retail Inc.	58.04
Intercorp Financial Services	2.33
Intercorp Perú Ltd	3.26
Inteligo Bank	7.61
NG Pharma Corp.	6.30
Others	22.46
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 September 30, 2018 were approved by the Board of Directors on November 15, 2018.

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\$583,000,000, which was partially funded with a US\$1,000,000,000 bridge loan at one-year maturity, and at an Libor 1 month 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 the date of acquisition, the net assets of the acquired company amounted to S/412,982,000.

Upon obtaining control, the Group will apply the purchase method established in IFRS 3 "Business Combination" to determine the acquired goodwill. As of September 30, 2018, the Company is in the process of evaluating the allocation exercise of the purchase price and its respective determination of goodwill.

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 September 30, 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 September 30, 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. and (iii) through IR Pharma S.A.C. holds 73.21 percent of Quicorp 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.

Notes to the interim consolidated financial statements (continued)

- Supermercados Peruanos S.A., is dedicated to retail. As of September 30, 2018 and December 31, 2017, has a chain of stores operating under the “Plaza Vea”, “Plaza Vea Super”, “Plaza Vea 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.) and (ii) Plaza Vea Sur 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 September 30, 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 September 30, 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 September 30, 2018, the Company holds 100 percent of Centro Comercial Estación Central S.A.
 - (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 September 30, 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, was approved the merger of Quicorp S.A.C. with Quimica Suiza Comercial S.A.C.

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

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 September 30, 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 available-for-sale investments 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 entered the Statement of Financial Position, recognizing all leases on the balance sheet as an asset more and more passive, like a purchase financed.

Earlier application is permitted provided that it also applies IFRS 15 "Revenue from contracts with customers", is effective for fiscal years beginning on 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 September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Cash (b)	37,268	23,444
Current accounts (c)	540,952	136,162
Time deposits (d)	69,560	106,571
Other	35,994	14,204
Total	683,774	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 0.014 and 2.900 percent in soles (between 1.25 and 3.30 percent in soles and between 0.80 and 1.40 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 September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Retail sales (c)	55,049	52,912
Rent receivable (d)	11,679	18,760
Invoices (e)	529,927	28,007
Provision for accrued revenue (f)	10,337	13,561
Others	68,818	15,534
Total	675,810	128,774
Provision for doubtful accounts (g)	(65,111)	(15,661)
Total	610,699	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 September 30, 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 nine-months periods ended September 30, 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	49,661	-
Provision recognized as expense, Note 17 (a)	7,858	3,008
Recoveries, Note 17 (a)	(3,508)	(815)
Write-offs	(5,107)	-
Exchange rate	7	(10)
Foreign currency variation	329	-
Others	210	-
Balance as of September 30	65,111	15,053
Balance as of December 31, 2017		15,661

As of September 30, 2018 and December 31, 2017, the amount of trade receivables past due but not impaired amounted to approximately S/128,657,000 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 September 30, 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 September 30, 2018	As of December 31, 2017
	S/(000)	S/(000)
Goods, Note 17 (a)	1,583,170	986,830
Goods in transit (b)	33,840	16,484
Miscellaneous supplies	3,776	8,226
Miscellaneous supplies for manufacture, Note 17 (a)	1,044	-
Raw material, Note 17 (a)	12,176	-
Finished goods, Note 17 (a)	897	-
Total	1,634,903	1,011,540
Minus		
Provision for impairment of inventories (c)	(41,491)	(8,101)
Total	1,593,412	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 nine-month periods ended September 30, 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	24,684	-
Provision of the period, Note 17 (a)	19,930	8,225
Recoveries	(1,108)	-
Write-offs	(10,196)	(7,921)
Foreign currency traslation	80	-
Balance as of September 30	41,491	9,264
Balance as of December 31, 2017		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. Available-for-sale financial investment

As of September 30, 2018, available for sale investments correspond to notes issued by a related company of Intercorp Group of approximately US\$ 2,493,000 equivalent to S/8,233,000 (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 September 30, 2018 amounted to S/1,203,000 (gain of S/769,000 as of June, 2017) and is presented in the consolidated statements of change in equity.

8. Derivative financial instruments

As of September 30, 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 the hedged item	Fair value 2018	Fair value 2017
	US\$(000)		%	S/(000)	S/(000)	S/(000)
J.P. Morgan (a)	350,000	April 2028	1.05	1,155,700	65,150	-
CitiBank N.A. (a)	400,000	May 2023	1.27	1,320,800	69,460	-
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					134,610	51,710

(a) In March 2018, Patrimonio en Fideicomiso D.S. 093-2002-EF InRetail Shopping Malls, Subsidiaries 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 14 (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 (b).

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 September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Cost		
Initial balance	3,695,504	3,390,798
Acquisition of subsidiary, net of depreciation and impairment	461,960	-
Additions (b)	373,095	405,910
Disposals and/or sales (c)	(92,568)	(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 (to) investments properties, Note 10(a)	7,374	(47,511)
Foreign currency translation	889	-
Final balance	4,449,892	3,695,504
Accumulated depreciation		
Initial balance	972,444	842,966
Additions (d)	150,129	162,666
Disposals and/or sales	(57,235)	(32,127)
Transfer from available for sale Investments	147	-
Transfer from (to) investment properties, Note 10(a)	-	(1,061)
Foreign currency translation	595	-
Final balance	1,066,080	972,444
impairment		
Initial balance	-	-
Disposals and/or sales	(1,651)	-
Transfer to investments properties, Note 10(a)	(1,595)	-
Final balance	(3,246)	-
Net book value	3,387,058	2,723,060

Notes to the interim consolidated financial statements (continued)

- (b) Additions for the nine-month periods ended September 30, 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 nine-month periods ended September 30, 2018 and 2017, was recorded as follows in the income statement:

	2018	2017
	S/(000)	S/(000)
Cost of sales, Note 17 (a)	3,233	-
Sales expenses, Note 17 (a)	131,493	106,571
Administrative expenses, Note 17 (a)	15,403	13,401
Balance as of September 30	150,129	119,972
Balance as of December 31, 2017		162,666

- (e) As of September 30, 2018 Supermercados Peruanos S.A. has mortgaged land lots, buildings and facilities for a net book value of S/735,353,000 (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 September 30, 2018 the cost and corresponding accumulated depreciation of assets acquired through finance leases amount to approximately S/769,453,000 and S/276,191,000, 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 September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Real Plaza Salaverry Shopping Mall (i)	426,067	423,389
Real Plaza Puruchuco project	281,672	141,749
Real Plaza Primavera Shopping Mall	230,235	222,477
Real Plaza Chiclayo Shopping Mall	224,005	216,475
Real Plaza Cuzco Shopping Mall (i)	214,440	211,849
Real Plaza Piura Shopping Mall	202,044	198,820
Real Plaza Centro Civico Shopping Mall (i)	197,503	197,392
Real Plaza Trujillo Shopping Mall	177,783	173,770
Real Plaza Huancayo Shopping Mall (i)	138,426	130,205
Real Plaza Pucallpa Shopping Mall	138,317	-
Real Plaza Huánuco Shopping Mall (i)	89,835	89,422
Real Plaza Cajamarca Shopping Mall	86,250	85,788
Real Plaza Villa Maria del Triunfo Shopping Mall (La Curva) (i)	82,959	82,114
Real Plaza Juliaca Shopping Mall (i)	74,249	74,691
Real Plaza Santa Clara - Altamirano Shopping Mall	74,179	72,906
Real Plaza Chorrillos Shopping Mall	64,603	63,514
Real Plaza Pro Shopping Mall	61,274	60,472
Real Plaza Arequipa Shopping Mall (i)	60,701	59,728
Plaza Center Lurin Shopping Mall	48,726	47,780
Real Plaza Nuevo Chimbote Shopping Mall	33,319	26,583
Plaza Center Villa El Salvador Shopping Mall	31,140	31,623
Real Plaza Sullana Shopping Mall	29,327	28,801
Plaza Center Moquegua	24,551	24,837
Plaza Center Tacna	16,192	16,305
Jr. de la Unión stores	13,615	13,466
Others	193,798	175,846
Total	3,215,210	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 nine-month periods ended September 30, 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	10,131	-
Additions	342,895	84,975
Disposal	(8,458)	-
Fair value adjustment	9,609	3,763
Transfer (to) from property, furniture and equipment; Note 9 (a)	(8,969)	38,067
Balance as of September 30	3,215,210	2,814,581
Balance as of December 31, 2017		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 September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Cost		
Initial balance	570,806	552,633
Acquisition of subsidiary, net of amortization	30,282	-
Additions (c)	38,055	20,312
Disposal and/or sales	(12,107)	(2,139)
Transfer from prepayments	5,664	-
Transfer from property plant and equipment, Note 9 (a)	352	-
Foreign currency translation	98	-
Final balance	633,150	570,806
Accumulated amortization		
Initial balance	83,529	67,932
Additions (e)	18,907	16,210
Disposals and/or sales	(11,836)	(613)
Foreign currency translation	78	-
Final balance	90,678	83,529
Goodwill		
Initial balance	709,472	709,472
Acquisition of Subsidiary	257,205	-
Additions (d)	1,460,082	-
Final balance	2,426,759	709,472
Net, book value	2,969,231	1,196,749

(b) As of September 30, 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 September 30, 2018 and December 31, 2017, additions mainly correspond to disbursements for the acquisition of a commercial software program, a general planning system (ERP) and related licenses; and disbursements for implementation of software and licenses in new stores of InRetail Group. Such disbursements include the acquisition of usage licenses, development costs and other directly attributable costs.

(d) As of September 30, 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\$583,000,000 equivalent to S/1,871,430,000 and at the date of acquisition, the net assets of the acquired company amounted to S/412,982,000.

Notes to the interim consolidated financial statements (continued)

Upon obtaining control, the Group will apply the purchase method established in IFRS 3 "Business Combination" to determine the acquired goodwill. As of September 30, 2018, the Company is in the process of evaluating the allocation exercise of the purchase price and its respective determination of goodwill.

Additionally, in January 2018, Real Plaza S.R.L. acquired 75 percent of the share capital of Centro Comercial Estación Central, obtaining control of 100 percent of the Company. The Company paid S/2,080,000 and the net assets of the acquired company amounted to S/446,000.

- (e) Amortization expense for the nine-month periods ended September 30, 2018 and 2017 has been recorded in the following items of the combined statements:

	2018 S/(000)	2017 S/(000)
Cost of sales, Note 17 (a)	68	-
Sales expenses, Note 17 (a)	11019	6,849
Administrative expenses, Note 17 (a)	7820	4,812
Balance as of September 30	18,907	11,661
Balance as of December 31, 2017		16,210

12. Trade payables

The table below presents the composition of this caption:

	As of September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Bills payable from purchase of goods	2,224,836	1,412,426
Bills payable from commercial services	537,385	228,339
Total	2,762,221	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)
Securitization												
Future flow securitization	USD	8.250	2018	15,000	-	-	1,981	-	1,981	-	-	-
				15,000	-	-	1,981	-	1,981	-	-	-
Senior Notes Unsecured												
Senior Notes Unsecured (b)	USD	5.750	2028	350,000	-	-	1,074,133	-	-	-	1,074,133	-
Senior Notes Unsecured (b)	PEN	6.563	2028	-	-	313,500	309,461	-	-	-	309,461	-
Senior Notes Unsecured (e)	PEN	7.875	2034	-	-	141,000	135,429	135,383	-	-	135,429	135,383
Senior Notes Unsecured (c)	PEN	6.438	2025	-	-	385,800	383,316	-	-	-	383,316	-
Senior Notes Unsecured (c)	USD	5.375	2023	400,000	-	-	1,299,524	-	-	-	1,299,524	-
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	3,201,863	1,860,091	-	-	3,201,863	1,860,091
Leasings												
Related entities												
Banco Internacional del Perú-Interbank	PEN	7.850	2019	-	-	27,412	5,742	10,142	5,742	5,923	-	4,219
Banco Internacional del Perú-Interbank	PEN	Between 6.000 and 8.500	2020 - 2022	-	-	198,301	139,233	138,809	35,775	12,398	103,458	126,411
Banco Internacional del Perú-Interbank	USD	5.300	2020	208	-	-	208	326	155	160	53	166
Non related entities												
Banco de Crédito del Perú	PEN	Between 6.590 and 7.850	2021	-	-	79,236	21,554	33,174	10,081	14,598	11,473	18,576
Banco de Crédito del Perú	PEN	Between 7.970 and 8.060	2024	-	-	108,400	40,082	47,396	10,903	10,264	29,179	37,132
Banco Scotiabank	PEN	6.820	2025	-	-	430,000	98,345	-	-	-	98,345	-
Banco Continental	PEN	7.800	2018	-	-	23,518	208	2,196	208	2,196	-	-
Banco Scotiabank	PEN	Between 6.350 and 6.390	2020	-	-	59,494	12,934	21,258	8,058	10,382	4,876	10,876
Banco de Crédito del Perú	PEN	Between 5.900 and 6.900	2019	-	-	1,717	224	-	224	-	-	-
Banco Santander del Perú	PEN	Between 6.900 and 7.650	2022	-	-	874	724	-	161	-	563	-
Banco Scotiabank	PEN	7.550	2019	-	-	13,034	500	-	479	-	21	-
Banco de Crédito del Perú	PEN	5.500	2021	-	-	399	395	-	122	-	273	-
Banco de Crédito del Perú	PEN	7.560	2020	-	-	111	83	-	36	-	47	-
Banco Continental	PEN	Between 4.950 and 7.500	2021	-	-	887	400	-	276	-	124	-
Banco Santander del Perú	PEN	Between 7.250 and 8.550	2020	-	-	1,756	291	-	245	-	46	-
				208	-	945,139	320,923	253,301	72,465	55,921	248,458	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	6.350	2020	-	-	60,000	25,995	34,939	13,809	12,140	12,186	22,799
Banco Internacional del Perú-Interbank	PEN	4.700	2025	-	-	161,950	155,044	-	22,969	-	132,075	-
Non related entities												
Banco de Crédito del Perú	PEN	Between 5.650 and 6.350	2024	-	-	217,197	193,853	171,776	55,347	8,204	138,506	163,572
Banco Scotiabank	PEN	Between 3.500 and 6.950	2025	-	-	735,100	602,453	141,670	146,569	41,143	455,884	100,527
Banco Continental	PEN	3.640	2018	-	-	20,000	20,000	-	20,000	-	-	-
Banco Citibank	PEN	3.200	2018	-	-	25,000	25,000	-	25,000	-	-	-
Banco Scotiabank	PEN	4.700	2025	-	-	161,950	155,070	-	22,974	-	132,096	-
Banco Scotiabank (i)	PEN	6.700	2019	-	-	100,000	31,161	49,785	24,919	24,844	6,242	24,941
Bank of Tokyo (h)	USD	Between 2.540 and 2.640	2019	30,000	-	-	-	96,927	-	-	-	96,927
Banco de Crédito del Perú	PEN	Between 3.390 and 3.449	2018	-	-	32,000	32,000	-	32,000	-	-	-
Banco Scotiabank	PEN	Between 3.500 and 3.649	2018	-	-	29,000	29,000	-	29,000	-	-	-
Banco de Crédito del Perú	PEN	3.780	2018	-	-	1,300	1,300	-	1,300	-	-	-
Banco Continental	PEN	3.830	2018	-	-	1,473	800	-	800	-	-	-
Banco de Crédito del Perú	PEN	3.830	2018	-	-	1,300	1,300	-	1,300	-	-	-
Banco Bolivariano	USD	7.000	2020	5,000	-	-	14,446	-	8,255	-	6,191	-
Banco Citibank	USD	6.950	2018	3,000	-	-	9,906	-	9,906	-	-	-
Banco Guayaquil	USD	6.970	2018	7,000	-	-	9,810	-	8,004	-	1,806	-
Banco Internacional	USD	6.650	2018	4,500	-	-	11,557	-	11,557	-	-	-
Banco Pacífico	USD	7.320	2020	1,000	-	-	2,011	-	1,119	-	892	-
Banco Pichincha	USD	7.000	2018	5,150	-	-	16,510	-	16,510	-	-	-
Produbanco	USD	7.710	2022	5,000	-	-	11,951	-	3,174	-	8,777	-
Banco Pichincha	USD	7.950	2018	500	-	-	991	-	991	-	-	-
Banco Pichincha	USD	7.000	2018	200	-	-	660	-	660	-	-	-
Banco Continental	COP	8.500	2018	-	2,900,000	-	3,222	-	3,222	-	-	-
				61,350	2,900,000	1,546,270	1,354,040	495,097	459,385	86,331	894,655	408,766
Call spread financing, Note 8												
Citibank N.A.	USD	1.270	2023	21,794	-	-	71,963	-	8,868	-	63,095	-
JP Morgan	USD	1.050	2028	23,440	-	-	77,397	-	5,034	-	72,363	-
JP Morgan	USD	1.840	2021	18,111	-	-	-	41,487	-	9,301	-	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	-	-	149,360	65,470	13,902	15,059	135,458	50,411
Other obligations (j)												
Hewlett Packard S.A.	USD	Between 1.450 and 5.950	2022	8,610	-	-	8,845	11,132	4,983	5,812	3,862	5,320
IBM Perú SAC	USD	2.170	2019	335	-	-	55	107	55	71	-	36
Hewlett Packard S.A.	USD	2.930	2021	12,084	-	-	17,562	17,052	8,242	8,094	9,320	8,958
Hewlett Packard S.A.	USD	Between 3.300 and 6.200	2018 - 2021	568	-	-	871	1,152	427	426	444	726
IBM Perú SAC	USD	2.250	2018	173	-	-	-	39	-	39	-	-
Infratech	USD	5.000	2018-2021	41	-	-	122	173	73	70	49	103
CSI Renting	USD	Between 2.720 and 5.130	2018-2021	241	-	-	551	194	220	103	331	91
				22,052	-	-	28,006	29,849	14,000	14,615	14,006	15,234
Total				1,573,274	2,900,000	3,581,709	5,056,173	2,703,808	561,733	171,926	4,494,440	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/1,155,700,000 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\$24,702,000 equivalent to approximately S/81,567,000 as of September 30, 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/4,039,000 as of September 30, 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 September 30, 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/1,320,800,000 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\$6,443,000 equivalent to approximately S/21,276,000 as of September 30, 2018. As of September 30, 2018, the balance of this loan is S/1,299,524,000.

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/2,484,000 as of September 30, 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 September 30, 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 of 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/1,571,000 as of September 30, 2018 (S/1,617,000 as of December 31, 2017). Additionally, as of September 30, 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 September 30, 2018 the balance of this loan is S/135,429,000 (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 September 30, 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 September 30, 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/89,000 (S/215,000 as of December 31, 2017).

As of September 30, 2018, InRetail Shopping Malls amortized the debt with Scotiabank by S/68,750,000.

- (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 nine-month-periods ended September 30, 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 September 30, 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 September 30, 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	306,689	171,926
2019	337,463	274,939
2020	353,680	229,179
2021	204,295	1,793,950
2022	210,586	41,857
2023 onwards	3,643,460	191,957
Total	5,056,173	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 September 30, 2018 and December 31, 2017, as well as the consolidated income statements for the nine-month periods ended September 30, 2018 and 2017 are shown below:

Statements of financial position	As of September 30, 2018		As of December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
	S/(000)	S/(000)	S/(000)	S/(000)
Supermercados Peruanos S.A. and Subsidiaries	-	84,672	-	80,920
Centro Comercial Estación Central S.A.	274	-	-	-
Inversiones Real State	-	632	-	632
Real Plaza S.R.L.	1,521	-	1,521	-
Inmobiliaria Puerta del Sol S.R.L.	-	29,143	-	26,846
IR Management S.R.L.	862	-	323	-
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	12,047	-	12,862	-
Química Suiza S.A.C.	-	33,035	-	-
Cifarma S.A.C.	-	45	-	-
Vanttive S.A.C.	304	-	-	-
Quifatex S.A.	2,955	-	-	-
Vanttive Cía Ltda.	30	-	-	-
Quimiza Ltda.	601	-	-	-
Quideca S.A.	985	-	-	-
Mifarma S.A.C.	14,198	-	-	-
Albis S.A.C.	29,555	-	-	-
Jorsa de la Selva S.A.C.	1,654	-	-	-
Consolidation adjustment	-	142,877	117	108,715
Total	64,986	290,404	14,823	217,113

Statements of comprehensive income	Income tax for the nine-month periods ended September 30, 2018 and 2017	
	2018	2017
	S/(000)	S/(000)
Current	(127,773)	(109,813)
Deferred	(6,691)	(13,344)
Income tax expense	(134,464)	(123,157)

- (b) As of September 30, 2018 and December 31, 2017 the provision for current income tax payable, net of advanced payments amounts to approximately S/1,776,000 and S/840,000, respectively.

Also, as of September 30, 2018 and December 31, 2017, non-current income related special purpose entity tax of S/205,812,000 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 September 30, 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/482,724,000.
- (c) Treasury shares
As of September 30, 2018, the InRetail Group acquired 1,568,825 Shares issued by InRetail Perú Corp., for approximately S/118,683,000, the nominal value of said shares being S/51,614,000, with the difference of S/67,069,000 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 September 30, 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 September 30, 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 2013 to 2017	From 2013 to 2017
Boticas del Oriente S.A.C.	From 2013 to 2017	From 2013 to 2017
Boticas Torres de Limatambo S.A.C	From 2013 to 2017	From 2013 to 2017
Cifarma S.A.C.	From 2013 to 2017	From 2013 to 2017
Droguería La Victoria S.A.C.	From 2013 to 2017	From 2013 to 2017
Eckerd Amazonía S.A.C.	From 2013 to 2017	From 2013 to 2017
Empresa comercializadora Mifarma Bolivia S.A.	From 2010 to 2017	From 2010 to 2017
Inmobiliaria Puerta del Sol S.A.	From 2015 to 2017	From 2013 to 2017
InRetail Pharma S.A. (formerly Eckerd Perú S.A.)	From 2014 to 2017	From 2013 to 2017
IR Management S.R.L.	2013 and From 2015 to 2017	From 2013 to 2017
Inversiones Real Estate S.R.L.	From 2014 to 2017	From 2014 to 2017
Jorsa de la Selva S.A.C.	From 2013 to 2017	From 2013 to 2017
Quicorp S.A.C.	From 2013 to 2017	From 2013 to 2017
Quideca S.A.	From 2013 to 2017	From 2016 to 2017
Mifarma S.A.C.	From 2014 to 2017	From 2013 to 2017
Patrimonio Fideicomiso Mercantil de acciones Quifatex S.A.	From 2015 to 2017	From 2015 to 2017
Química Suiza Comercial S.A.C.	From 2015 to 2017	From 2015 to 2017
Química Suiza S.A.C.	From 2016 to 2017	From 2013 to 2017
Quimiza Ltda.	From 2013 to 2017	From 2013 to 2017
Real Plaza S.R.L.	From 2015 to 2017	From 2013 to 2017
Superfarma Mayoristas S.A.C.	From 2016 to 2017	From 2016 to 2017
Supermercados Peruanos S.A.	From 2013 to 2017	From 2013 to 2017
Vanttive Cía Ltda.	From 2015 to 2017	From 2015 to 2017
Vanttive S.A.C.	From 2013 to 2017	From 2013 to 2017

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 September 30, 2018 and December 31, 2017, the accrued income tax amounted to S/205,812,000 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 September 30, 2018 and December 31, 2017.

- (f) As of September 30, 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.	94,406	-
Jorsa de la Selva S.A.C.	6,422	-
Superfarma Mayorista S.A.C.	1,560	-
Vanttive S.A.C.	828	-
Total	103,216	-

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 nine-month periods ended September 30, 2018 and 2017:

	2018	2017
	S/(000)	S/(000)
Cost of sales	6,304,916	3,954,971
Selling expenses	1,626,222	1,140,547
Administrative expenses	339,807	164,164
Total	8,270,945	5,259,682

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	6,073,809	-	-	6,073,809
Final balance of goods, Note 6 (a)	(1,583,170)	-	-	(1,583,170)
Final balance of raw material, Note 6 (a)	(12,176)	-	-	(12,176)
Final balance of miscellaneous supplies, Note 6 (a)	(1,044)	-	-	(1,044)
Final balance of finished goods, Note 6 (a)	(897)	-	-	(897)
Impairment of inventories, Note 6 (c)	19,930	-	-	19,930
Factory overhead	13,889	-	-	13,889
Cost of services	140,723	-	-	140,723
Personnel expenses	-	645,697	208,955	854,652
Depreciation, Note 9 (a)	3,233	131,493	15,403	150,129
Amortization, Note 11 (e)	68	11,019	7,820	18,907
Key money amortization	-	4,130	-	4,130
Services provided by third parties (b)	-	293,412	62,147	355,559
Advertising	-	93,267	112	93,379
Packing and packaging	-	33,122	586	33,708
Rental of premises	-	226,829	12,144	238,973
Taxes	-	29,214	8,180	37,394
Provision for doubtful trade receivables, Note 5(g)	-	7,858	-	7,858
Recovery of provision for doubtful receivables, Note 5(g)	-	(3,508)	-	(3,508)
Provision for doubtful others receivables	-	1,013	-	1,013
Insurance	-	12,221	1,363	13,584
Other charges (c)	-	140,455	23,097	163,552
Total	6,304,916	1,626,222	339,807	8,270,945
	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	3,870,243	-	-	3,870,243
Final balance of goods	(1,002,255)	-	-	(1,002,255)
Impairment of inventories, Note 6 (c)	8,225	-	-	8,225
Cost of services	115,888	-	-	115,888
Personnel expenses	-	421,066	94,252	515,318
Depreciation, Note 9 (d)	-	106,571	13,401	119,972
Amortization, Note 11 (e)	-	6,849	4,812	11,661
Key money amortization	-	855	-	855
Services provided by third parties (b)	-	198,530	24,005	222,535
Advertising	-	70,494	-	70,494
Packing and packaging	-	31,073	104	31,177
Rental of premises	-	153,648	5,034	158,682
Taxes	-	21,730	3,085	24,815
Provision for doubtful trade receivables, Note 5(g)	-	3,008	-	3,008
Recovery for provision for doubtful receivables, Note 5 (g)	-	(815)	-	(815)
Provision for doubtful others receivables, Note 5(g)	-	(296)	-	(296)
Insurance	-	7,014	663	7,677
Other charges (c)	-	120,820	18,808	139,628
Total	3,954,971	1,140,547	164,164	5,259,682

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	205,017	124,226
Accrual of the cost of structuring of financial obligations	41,227	9,398
Accrual of the cost of structuring by early settlement of "Senior Notes Unsecured" (d)	12,052	2,708
Premium for early settlement of bonds and cancellation of loans (c)	77,090	-
Call Spread early settlement, Note 8 (b)	20,542	-
Premium accrual "Call Spread"	11,665	10,946
Other financial costs	<u>42,240</u>	<u>15,229</u>
Total	<u>409,833</u>	<u>162,507</u>

- (b) As of September 30, 2018 and December 31, 2017, there are interest payable for these obligations for approximately S/96,638,000 and S/47,143,000, respectively, which are recorded in the "Other payables" caption of the consolidated statements of financial position.
- (c) As of September 30, 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 September 30, 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 nine-month periods ended as of September 30, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Income		
Sales	5,311	3,369
Rental income	86,852	78,026
Rendering of services	11,310	45,692
Collection of commissions	15,180	5,281
Income from Joint Venture	19,664	18,061
Interest income	915	662
Sales of fixed assets	15,523	63
Other	35,387	29,990
Total	190,142	181,144
Expenses		
Renting of premises and land	3,120	6,449
Reimbursement of expenses	1,397	1,326
Commissions	3,425	726
Interest	5,192	4,780
Others	10,371	8,284
Total	23,505	21,565

(b) As a result of the transactions with related companies, the InRetail Group recorded the following balances as of September 30, 2018 and December 31, 2017:

	As of September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Receivables		
Interseguro Compañía de Seguros S.A.	-	21,110
Others	20,662	18,937
Tiendas Peruanas S.A. (g)	9,069	5,800
Financiera Oh! S.A.	12,306	4,673
Inmobiliaria Milenia S.A.	21	4,262
Homecenters Peruanos S.A. (g)	8,884	3,702
Banco Internacional del Perú S.A.A.-Interbank	665	3,353
Bellavista Global Opportunities S.A.C.	-	2,117
Bembos S.A.C.	1,499	1,917
Cineplex S.A.	954	1,240
Intercorp Perú Ltd. (e)	3,480	552
Intercorp Retail Inc. (h)	223	223
Tiendas Peruanas Oriente S.A. (d)	9,817	-
Total	67,580	67,886

Notes to the interim consolidated financial statements (continued)

	As of September 30, 2018 S/(000)	As of December 31, 2017 S/(000)
Payables		
Homecenters Peruanos S.A. (j)	25,030	20,912
Financiera Oh! S.A. (i)	41,151	34,851
Banco Internacional del Perú S.A.A. – Interbank:	-	-
Credit lines and others	17	17
Guarantee deposits (f)	6,151	5,658
Tiendas Peruanas S.A.	1	1,143
Interseguro Compañía de Seguros S.A.	-	23,031
Horizonte Global Opportunities Perú S.A.	-	25
Intercorp Retail Inc.	-	21
Inmobiliaria Milenia S.A.	258	42
Others	3,301	1,074
	75,909	86,774
Remunerations payable to key management	-	-
Total	75,909	86,774
Current portion	45,113	60,955
Non-current portion	30,796	25,819
Total	75,909	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 September 30, 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 September 30, 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 September 30, 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 September 30, 2018 and December 31, 2017, the net present value of the balances related to guarantee deposits amounts to S/6,151,000 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 nine-month period ended September 30, 2018 Supermercados Peruanos S.A. recognized accrued renting revenue that amounted to approximately S/638,000 equivalent to US\$200,000 (S/759,000 equivalent to approximately US\$238,000 during the nine-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 September 30, 2018 Supermercados Peruanos S.A. maintains deferred revenue that amounts to approximately S/977,000 (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.
- (h) As of September 30, 2018 and December 31, 2017 it corresponds to the account receivable for some expenses assumed by Intercorp Retail Inc. This balance does not generate interest and is of current maturity.
- (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 September 30, 2018 and December 31, 2017, the InRetail Group holds InRetail accounts payables to Financiera Oh! S.A for S/40,755,000 and S/34,851,000, respectively, which correspond mainly to the collection of installments to user of the Oh! Credit card.
- (j) As of September 30, 2018 mainly includes contributions from the affiliate Homecenters Peruanos S.A. (hereinafter "The associate") for approximately S/20,214,000 (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". This agreement 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/139,233,000, S/5,742,000 and S/208,000 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 8.50 percent, and whose maturities are between 2019 and 2022. These transactions are included in "Interest-bearing loans and borrowings". During the nine-month periods ended September 30, 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 September 30, 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 nine-month periods ended September 30, 2018 and 2017, is detailed below:

	2018 S/(000)	2017 S/(000)
Short term employee benefits	33,876	17,806
Insurance and medical benefits	957	773
Employment benefits for contract termination	7,178	-
Total	42,011	18,579

- (n) As of September 30, 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.	375,427	96,973
Inteligo Bank Ltd.	16,797	1,548
Investments at fair value through profit or loss		
Interfondos S.A. Sociedad Administradora de Fondos SAF	2,354	64,424
Fondos Sura SAF S.A.C.	-	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 nine-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:

	Ordinary shares		
	Outstanding shares	Effective days until period-end	Weighted average of shares
Number as of January 1, 2017	102,807,319	270	102,807,319
Number as of September 30, 2017	102,807,319		102,807,319
Number as of January 1, 2018	102,807,319	270	102,807,319
Number as of September 30, 2018	102,807,319		102,807,319
	For the nine-month-periods ended September 30, 2018		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted loss per share	85,522,000	102,807,319	0.83
	For the nine-month-periods ended September 30, 2017		
	Net income (numerator) S/	Shares (denominator)	Earnings per share S/
Basic and diluted earnings per share	183,390,000	102,807,319	1.78

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 September 30, 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 September 30, 2018 the Company agreed with several financial entities on the issuance of solidary and irrevocable letters of guarantee for approximately S/84,359,000, US\$11,149,000 and b\$1,392,000 (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 September 30, 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 September 30, 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 September 30, 2018 and December 31, 2017 and for the nine-month periods ended September 30, 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 nine-month periods ended September 30, 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 nine-month period ended September 30, 2018							
Revenue							
External income	3,674,089	3,489,625	1,400,779	327,461	8,891,954	4,472	8,896,426
Inter-segment	11,414	2,390	476,287	39,526	529,617	(529,617)	-
Total revenue	3,685,503	3,492,015	1,877,066	366,987	9,421,571	(525,145)	8,896,426
Cost of sales	(2,723,661)	(1,936,343)	(1,523,510)	(120,039)	(6,303,553)	(1,363)	(6,304,916)
Inter-segment	(4,369)	(407,099)	(42,163)	-	(453,631)	453,631	-
Gross profit	957,473	1,148,573	311,393	246,948	2,664,387	(72,877)	2,591,510
Join venture income	19,664	-	-	-	19,664	-	19,664
Gain on valuation at fair value of investment properties	(69)	-	-	11,563	11,494	(1,885)	9,609
Selling expenses	(736,704)	(756,958)	(179,959)	(6,546)	(1,680,167)	53,945	(1,626,222)
Administrative expenses	(101,109)	(131,284)	(73,725)	(23,099)	(329,217)	(10,590)	(339,807)
Other operating (expenses) income, net	(9,980)	(9,189)	(21,183)	5,414	(34,938)	32,284	(2,654)
Operating profit	129,275	251,142	36,526	234,280	651,223	877	652,100
Exchange difference, net	(2,022)	(31,666)	21	(2,351)	(36,018)	677	(35,341)
Finance income	2,705	36,444	3,087	17,946	60,182	(38,072)	22,110
Finance costs	(53,803)	(135,063)	(16,334)	(139,597)	(344,797)	(65,036)	(409,833)
Profit before income tax	76,155	120,857	23,300	110,278	330,590	(101,554)	229,036
Income tax expense	(37,819)	(45,447)	(18,167)	(33,461)	(134,894)	430	(134,464)
Profit for the year	38,336	75,410	5,133	76,817	195,696	(101,124)	94,572
Attributable to:							
Owners of the parent	38,336	75,410	5,133	76,817	195,696	(110,174)	85,522
Non-controlling interests	-	-	-	-	-	9,050	9,050
Profit for the year	38,336	75,410	5,133	76,817	195,696	(101,124)	94,572

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 nine-month period ended September 30, 2017							
Revenue							
External income	3,342,910	2,028,731	-	312,847	5,684,488	5,976	5,690,464
Inter-segment	9,443	-	-	34,276	43,719	(43,719)	-
Total revenue	3,352,353	2,028,731	-	347,123	5,728,207	(37,743)	5,690,464
Cost of sales	(2,477,552)	(1,361,532)	-	(114,860)	(3,953,944)	(1,027)	(3,954,971)
Gross profit	874,801	667,199	-	232,263	1,774,263	(38,770)	1,735,493
Join venture income	18,061	-	-	-	18,061	-	18,061
Gain on valuation at fair value of investment properties	-	-	-	5,450	5,450	(1,687)	3,763
Selling expenses	(689,353)	(480,979)	-	(5,929)	(1,176,261)	35,714	(1,140,547)
Administrative expenses	(87,972)	(48,500)	-	(19,401)	(155,873)	(8,291)	(164,164)
Other operating (expenses) income, net	(6,352)	(2,245)	-	1,994	(6,603)	-	(6,603)
Operating profit	109,185	135,475	-	214,377	459,037	(13,034)	446,003
Exchange difference, net	6,058	(1,061)	-	6,159	11,156	2,937	14,093
Finance income	2,275	4,735	-	5,499	12,509	(3,541)	8,968
Finance costs	(39,685)	(1,904)	-	(85,708)	(127,297)	(35,210)	(162,507)
Profit before income tax	77,833	137,245	-	140,327	355,405	(48,848)	306,557
Income tax expense	(32,717)	(43,418)	-	(44,659)	(120,794)	(2,363)	(123,157)
Profit for the year	45,116	93,827	-	95,668	234,611	(51,211)	183,400
Attributable to:							
Owners of the parent	45,116	93,827	-	95,668	234,611	(51,221)	183,390
Non-controlling interests	-	-	-	-	-	10	10
Profit for the year	45,116	93,827	-	95,668	234,611	(51,211)	183,400

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 September 30, 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) Available-for-sale investment –
Fair value of available-for-sale financial assets 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 nine-month periods ended September 30, 2018 and 2017. The InRetail Group maintains the following financial instruments at fair value:

- Available-for-sale investments 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 September 30, 2018 the weighted average exchange rates in the market for transactions in US Dollars were S/3.298 per US\$1.00 bid and S/3.302 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 September 30, 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\$)	0.303	0.308
Bolivian Peso (b\$)	2.108	2.145
Colombian Peso (\$)	900.115	919.659

Notes to the interim consolidated financial statements (continued)

As of September 30, 2018 and December 31, 2017, The InRetail Group held the following foreign currency assets and liabilities:

	As of September 30, 2018			As of December 31, 2017
	US\$(000)	b\$(000)	\$(000)	US\$(000)
Assets				
Cash and short-term deposits	25,709	6,210	2,157,962	8,158
Investments at fair value through profit or loss	628	-	-	29,114
Available-for-sale investment	2,493	-	-	9,243
Trade receivables, net	59,157	39,038	8,899,600	402
Other accounts receivables, net	9,162	7,132	-	4,355
Accounts receivable from related parties	6,933	-	-	4,763
Total assets	104,082	52,380	11,057,562	56,035
Liabilities				
Trade payables	(90,578)	(53,849)	(6,871,768)	(9,046)
Other payables	(36,623)	(10,085)	-	(19,611)
Accounts payable to related parties	(6,047)	-	-	(3,138)
Interest - bearing loans and borrowings	(796,807)	-	(2,900,000)	(513,971)
Total Liabilities	(930,055)	(63,934)	(9,771,768)	(545,766)
Call Spread	750,000	-	-	330,000
Net liability position	(75,973)	(11,554)	1,285,794	(159,731)

- (a) As of September 30, 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.