Translation of independent auditors' report and financial statements originally issued in Spanish - Note 33

InRetail Real Estate Corp. and Subsidiaries

Consolidated financial statements as of December 31, 2018 and 2017, together with independent auditors' report

Building a better working world

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 33

InRetail Real Estate Corp. and Subsidiaries

Consolidated financial statements as of December 31, 2018 and 2017, together with Independent Auditors' report

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Paredes, Burga & Asociados
Sociedad Civil de Responsabilidad Limitada

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 33

Independent Auditors' Report

To the Shareholders and Board of Directors of InRetail Real Estate Corp. and Subsidiaries

We have audited the accompanying consolidated financial statements of InRetail Real Estate Corp. and Subsidiaries (hereafter "the Company"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated income statements, of other comprehensive income, of changes in equity, and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes (notes 1 to 33).

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for its application in Peru by the Board of Deans of the Peruvian Charter of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company and its Subsidiaries in the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and its Subsidiaries internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Translation of independent auditors' report and financial statements originally issued in Spanish - Note 33

Independent Auditors' Report (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of InRetail Real Estate Corp. and Subsidiaries as of December 31, 2018 and 2017, its financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Lima, Perú,
April 26, 2019

Countersigned by:

Paredes, Burga & Asoc.

Cristian Emmerich
C.P.C.C. Register No. 39801

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2018 and 2017

	Note	2018 S/(000)	2017 S/(000)
Asset			
Current assets			
Cash and cash equivalents	3 and 4	26,981	54,422
Investments at fair value through profit or loss	3 and 5	11,664	202,047
Investments at fair value through other comprehensive income	3 and 6	130,895	56,403
Trade accounts receivables, net	3 and 7	26,290	25,971
Accounts receivable from related parties	3 and 26(b)	37,431	52,341
Other receivables	3 and 8	24,934	24,469
Prepaid expenses	3	1,043	5,166
Recoverable taxes	3 and 9	22,206	9,605
Total current assets		281,444	430,424
Recoverable taxes	3 and 9	2,832	16,152
Accounts receivable from related parties	3 and 26(b)	410,740	-
Facilities, furniture and equipment, net	3 and 10	8,104	9,192
Investment properties	3 and 11	3,671,315	3,202,400
Derivative financial instruments – "Call spread"	3 and 12	77,257	30,279
Other assets		4,524	3,992
Deferred Income tax asset	3 and 16(a)	1,822	1,521
Total asset		4,458,038	3,693,960

	Note	2018 S/(000)	2017 S/(000)
Liability and equity			
Current liability			
Trade accounts payables	3 and 13	46,044	31,866
Accounts payable to related parties	3 and 26(b)	1,696	23,355
Other liabilities	3 and 14	59,012	60,209
Current portion of long-term financial obligations	3 and 15	40,827	45,206
Total current liability		147,579	160,636
Trade accounts payables	3 and 13	8,910	8,539
Other long-term liabilities	3 and 14	10,078	19,610
Long-term financial obligations	3 and 15	1,754,213	1,147,603
Deferred Income tax liability	3 and 16(a)	30,787	27,478
Taxes related to Special Purpose Entities	3 and 25(f)	278,534	213,081
Total liability		2,230,101	1,576,947
Equity			
Capital stock	18	1,475,706	1,475,706
Unrealized results		(8,717)	3,706
Retained earnings		760,948	637,601
Total equity		2,227,937	2,117,013
Total liability and equity		4,458,038	3,693,960

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of income

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Rental income	3 and 19	356,648	331,375	317,150
Income from management services	3 and 19	151,065	147,099	140,728
Cost related to income from management services	3 and 20	(117,610)	(112,177)	(109,053)
Net rental income		390,103	366,297	348,825
Cost of rental income	3 and 20	(47,601)	(44,693)	(34,001)
Gross profit		342,502	321,604	314,824
Valuation gains from investment properties	3 and 11(a)	18,137	11,424	11,056
Selling and administrative expenses	3 and 21	(40,654)	(36,367)	(32,609)
Other incomes (expenses), net	3 and 23	5,145	5,142	454
Operating profit		325,130	301,803	293,725
Financial income	3 and 24	25,462	7,783	6,251
Financial expenses	3 and 24	(172,650)	(114,641)	(119,780)
Exchange difference, net	3 and 28(b)(ii)	(2,775)	7,997	3,878
Profit before income tax		175,167	202,942	184,074
Income tax	3 and 16(c)	(51,820)	(65,876)	(56,149)
Net income		123,347	137,066	127,925
Basic and diluted profit per share (thousands of shares outstanding 568,201)	3 and 18(a)	0.217	0.2412	0.2251

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of comprehensive income

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Net income		123,347	137,066	127,925
Other comprehensive income				
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods:				
Net gain on investments at fair value through other comprehensive income	3.2(b) and 6	15,285	1,307	5,800
Net movement on cash flow hedges	3.2(s) and 12	(27,708)	14,077	14,693
Other comprehensive income to be reclassified to the consolidated income statements in subsequent periods, net of Income Tax		(12,423)	15,384	20,493
Total comprehensive income for the year, net of Income Tax		110,924	152,450	148,418

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2018, 2017 and 2016

			Attributable to owners of the Parent				
	Number of shares issued Note 19 (in thousands of units)	**Capital stock** S/(000)	**Unrealized results** S/(000)	**Retained earnings** S/(000)	**Total** S/(000)	**Non-controlling interest** S/(000)	**Total** S/(000)
Balance as of January 1, 2016	568,201	1,475,706	(32,171)	375,467	1,819,002	6,419	1,825,421
Net income	-	-	-	127,925	127,925	-	127,925
Other comprehensive income, Note 18(b)	-	-	20,493	-	20,493	-	20,493
Total comprehensive income	-	-	20,493	127,925	148,418	-	148,418
Acquisition of non-controlling interest, Note 18(c)	-	-	-	(2,621)	(2,621)	(6,419)	(9,040)
Net income	-	-	-	(193)	(193)	-	(193)
Balance as of December 31, 2016	568,201	1,475,706	(11,678)	500,578	1,964,606	-	1,964,606
Net income	-	-	-	137,066	137,066	-	137,066
Other comprehensive income, Note 18(b)	-	-	15,384	-	15,384	-	15,384
Total comprehensive income	-	-	15,384	137,066	152,450	-	152,450
Others	-	-	-	(43)	(43)	-	(43)
Balance as of December 31, 2017	568,201	1,475,706	3,706	637,601	2,117,013	-	2,117,013
Net income	-	-	-	123,347	123,347	-	123,347
Other comprehensive income, Note 18(b)	-	-	(12,423)	-	(12,423)	-	(12,423)
Total comprehensive income	-	-	(12,423)	123,347	110,924	-	110,924
Balance as of December 31, 2018	568,201	1,475,706	(8,717)	760,948	2,227,937	-	2,227,937

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

InRetail Real Estate Corp. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2018, 2017 and 2016

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Operating activities				
Collections from ordinary activities		521,690	495,662	450,839
Payments to suppliers of goods and services		(154,189)	(133,531)	(121,880)
Payroll and social benefits payments		(37,543)	(28,879)	(30,678)
Taxes paid		(43,776)	(19,496)	(3,807)
Taxes recovered		42,844	32,261	54,158
Other charges (payments)		3,173	6,099	(2,089)
Net cash flows provided by operating activities		332,199	352,116	346,543
Investing activities				
Purchase of investments at fair value through profit or loss		(137,996)	(311,381)	(360,426)
Withdrawal of investments at fair value through profit or loss		328,379	199,668	304,988
Charge of loans granted to related parties		14,058	-	-
Charge of interest for related parties loans		7,239		
Sale of investments at fair value through other comprehensive income		30,781	-	-
Purchase of investments at fair value through other comprehensive income		(81,961)	-	(30,773)
Purchase of investment properties		(344,812)	(86,475)	(137,151)
Sale of investment properties	11(b)	-	4,004	2,751
Re-invoicing for store implementation	11(d)	2,509		
Value Added Tax payment related to investment properties in progress		(26,857)	(14,066)	(33,493)
Purchase of facilities, furniture and equipment, net of acquisitions through leasing contracts	10(a)	(2,026)	(1,370)	(1,107)
Purchase and development of intangible assets		(1,152)	(1,556)	(972)
Loans granted, net		(412,558)	(1,800)	1,915
Acquisition in subsidiary	2	(2,080)	-	-
Net cash flows used in investing activities		(626,476)	(212,976)	(254,268)

Consolidated statements of cash flows (continued)

	Note	2018 S/(000)	2017 S/(000)	2016 S/(000)
Financing activities				
Issuance of bonds, net of structuring expenses		443,063	-	-
Payment of financial obligations		(35,040)	(43,210)	(44,826)
Sale of bonds issued in the portfolio		-	-	55,000
Payment on premium of repurchase of bonds issued		(24,148)	-	-
Other payments		(5,750)		
Interest paid		(111,289)	(87,187)	(90,568)
Acquisition of non-controlling interest	18(c)	-	-	(9,040)
Net cash flows provided by (used in) financing activities		266,836	(130,397)	(89,434)
(Decrease) net increase in cash and cash equivalent		(27,441)	5,537	2,841
Cash and cash equivalents at the beginning of the year	3.2(f) and 4(a)	54,422	48,885	46,044
Cash and cash equivalents at the end of the year		26,981	54,422	48,885
Non-cash transactions -				
Properties investment lease contract	11(c)	111,626	-	-
Re-invoicing for store implementation	11(d)	7,215	-	-
Leasing contracts	10(e)	172	929	1,793
Provision for costs incurred in investment properties			-	4,452
Purchase of investment property participation in "REX" for investments at fair value through other comprehensive income		-	-	30,071

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

InRetail Real Estate Corp. and Subsidiaries

Notes to the consolidated financial statements

As of December 31, 2018 and 2017

1. **Business activity -**

Identification –

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

As of December 31, 2018 and 2017, Intercorp Perú holds directly and indirectly 70.17 and 70.16 percent, of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

The Company's legal address is 50 Street and 74 Street, floor 16 "PH" Building, San Francisco, Republic of Panama. However, its Management and administrative offices are located at Av. Punta del Este 2403, Jesus Maria, Lima, Peru.

The Company and its Subsidiaries, Patrimonio en Fideicomiso – D.S. N°093-2002-EF- InRetail Shopping Malls, Patrimonio en Fideicomiso – D.S.N°093-2002 – EF - Interproperties Holding, Patrimonio en Fideicomiso – D.S. N°093-2002-EF-Interproperties Holding II and subsidiary and Real Plaza S.R.L. (hereinafter and together, "InRetail Real Estate"), are dedicated to operating shopping malls as well as real estate development. InRetail Real Estate operations are concentrated in Peru. Note 2 presents in greater detail the structure and activities of the Company and Subsidiaries.

The consolidated financial statements attached to and for the year ended December 31, 2017 have been approved by the General Shareholders' Meeting on March 28, 2018. The consolidated financial statements as of December 31, 2018 have been approved by Management on February 15, 2019, and they will be submitted for approval to the General Shareholders' Meeting within the deadlines established by law.

2. Subsidiaries activities

InRetail Real Estate Corp. is the controlling entity of Patrimonio en Fideicomiso – D.S.N°093-2002–EF - InRetail Shopping Malls and Subsidiaries hereinafter "InRetail Shopping Malls", which is a Special Purpose Entity (SPE) constituted for the purpose to hold the certificates of participation of Patrimonio en Fideicomiso D.S N° 093-2002-EF - Interproperties Holding, Patrimonio en Fideicomiso D.S N° 093-2002-EF - Interproperties Holding II and Subsidiaries and the shares representing the capital stock of Real Plaza SRL and Subdidiaries jointly referred to as "the InRetail Real Estate Group".

Interproperties Holding and Interproperties Holding II are Special Purpose Entities that hold certificates of participation of Patrimonio en Fideicomiso–D.S.N°093-2002–EF-Interproperties Perú.

Patrimonio en Fideicomiso–D.S.N°093-2002–EF-Interproperties Perú (hereinafter " Patrimonio Fideicometido – Interproperties Perú") is a structured entity of special purpose entity established in April 2008, to which different investors —related to the Intercorp Group— contributed with investment properties; each investor or group of investors have the ownership and the specific control of the property they contributed. As of December 31, 2018 and 2017, the fair value of the properties contributed by Interproperties Holding and Interproperties Holding II, which were included in said structured entity, amounted to S/3,607,000 and S/3,144,000, respectively. For accounting purposes and according to IFRS 10 "Consolidated Financial Statements", the assets included in said structured entity are considered "silos", given that they are delimited parts of a broader structured entity (the Trust Property "Interproperties Perú"). InRetail Real Estate Group has ownership and decision power over these properties and has the exposure or rights over its returns; therefore, it has consolidated the silos that contain the investment properties it controls

The InRetail Real Estate Group is dedicated to the business of investment properties under the format of shopping malls so as to generate income mainly through renting. The shopping malls operate under the name "Real Plaza" and are located in the cities of Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Pucallpa, Huánuco, Cusco, Cajamarca and Lima. The detail of the Shopping Malls and other investment properties held by the InRetail Real Estate Group is presented in note 11 of the consolidated financial statements.

Additionally, as of December 31, 2018 and 2017 Interproperties Holding II owns 100 percent of participation in the net assets of Patrimonio en Fideicomiso – D.S. N°093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own the 100 percent of shares of Inmobiliaria Puerta del Sol S.A., owner of the Real Plaza Cusco Shopping Mall.

Real Plaza S.R.L. is a company dedicated to the management and administration of Shopping Malls; and to maintain and develop relationships with tenants. Additionally, Real Plaza S.R.L. owns as of December 2018 the 100 percent stake in two Subsidiaries: Inversiones Real State S.A. and Centro Comercial Estación Central. S.A (100 and 25 percent respectively As of December 31, 2017). The latter is dedicated to the operation, operation and maintenance of the commercial area and the hygienic services of Estación Central del Corredor Segregado de Buses Alta Capacidad – COSAC I. The acquisition of 75 percent was made to a related entity in January 2018 and by an amount of S/2,079,846; assets, liabilities and equity, net of Centro Comercial Estación Central S.A. at the acquisition date they amounted to S/2,446,585, S/1,747,327 and S/699,258, respectively.

A summary of the main data of the audited separate financial statements of the Company, its Subsidiaries and SPEs as of December 31, 2018, 2017 and 2016, and for the years then ended is presented below:

	As of December 31,2018			
	Assets S/(000)	Liabilities S/(000)	Net Equity S/(000)	Profit (Loss) S/(000)
Company				
InRetail Real Estate Corp.	1,489,435	6	1,489,429	(47)
Real Plaza S.R.L. and Subsidiaries	56,794	45,620	11,174	199
Special purpose entities (SPEs)				
Patrimonio en Fideicomiso D.S.N°093-2002 –EF- Interproperties Holding	1,681,313	292,739	1,388,574	113,942
Patrimonio en Fideicomiso D.S.N°093-2002 -EF- Interproperties Holding II and subsidiaries	2,075,970	409,282	1,666,688	112,600
Patrimonio en Fideicomiso D.S. N°093-2002 -EF- InRetail Shopping Malls	3,539,312	1,531,788	2,007,524	(103,346)

	As of December 31,2017			
	Assets S/(000)	Liabilities S/(000)	Net Equity S/(000)	Profit (Loss) S/(000)
Company				
InRetail Real Estate Corp.	1,489,478	4	1,489,474	(61)
Real Plaza S.R.L. and Subsidiaries	48,236	40,864	7,372	3,764
Special purpose entities (SPEs)				
Patrimonio en Fideicomiso D.S.N°093-2002 –EF- Interproperties Holding	1,689,753	229,330	1,460,423	100,621
Patrimonio en Fideicomiso D.S.N°093-2002 -EF- Interproperties Holding II and Subsidiaries	1,742,704	258,345	1,484,359	100,289
Patrimonio en Fideicomiso D.S. N°093-2002 -EF- InRetail Shopping Malls	3,034,251	1,190,986	1,843,265	(65,862)

	As of December 31,2016			
	Assets S/(000)	Liabilities S/(000)	Net Equity S/(000)	Profit (Loss) S/(000)
Company				
InRetail Real Estate Corp.	1,489,535	-	1,489,535	(74)
Real Plaza S.R.L. and Subsidiaries	50,731	47,131	3,600	185
Special purpose entities (SPEs)				
Patrimonio en Fideicomiso D.S.N°093-2002 –EF- Interproperties Holding	1,692,501	210,484	1,482,017	127,984
Patrimonio en Fideicomiso D.S.N°093-2002 -EF- Interproperties Holding II and Subsidiaries	1,668,911	220,286	1,448,625	74,147
Patrimonio en Fideicomiso D.S. N°093-2002 -EF- InRetail Shopping Malls	2,889,961	1,251,867	1,638,094	(71,957)

3. **Summary of significant accounting policies**

The significant accounting policies used in the preparation and presentation of InRetail Real Estate's consolidated financial statements are described below:

3.1 **Basis of preparation and presentation –**

The consolidated financial statements of InRetail Real Estate Corp. have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective as of December 31, 2018 and 2017 and 2016, respectively. It should be noted that during 2015, Inretail Real Estate decided to early adopt IFRS 9 "Financial Instruments", mandatory for annual periods beginning on January 1, 2018.

Furthermore, on January 1, 2018, InRetail Real Estate applied IFRS 15 for the first time. The nature and effect of the changes as a result of the adoption of this new accounting standard is described in note 3.2.

The information contained in these consolidated financial statements is responsibility of the Management of the Company and its Subsidiaries, who expressly declare that they have fully applied the principles and criteria established in the IFRS issued by IASB that are effective at the dates of the consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except for the investments at fair value through profit or loss, investments at fair value through other comprehensive income, investment properties and derivative financial instruments – "Call spread", which 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.

3.2 **Changes in accounting standards and disclosures**

In these financial statements, the Company and its Subsidiaries have applied for the first time the effective IFRS for periods beginning on or after January 1, 2018, which do not have a significant impact on their financial statements and are described later. It should be noted that IFRS 9 "Financial Instruments", as indicated above and explained in more detail later in this note to the consolidated financial statements, was early adopted as of January 1, 2015. Furthermore, the Company and its Subsidiaries have not adopted any standard, interpretation or amendment that has been issued but is not effective, see note 3.5.

- **IFRS 15 "Revenue from contracts with customers"**

  IFRS 15, which replaced IAS 18 "Revenue" and IAS 11 "Construction Contracts", was applied by the Company as of January 1, 2018 to all contracts with customers, except for lease agreements and for financial instruments and insurance contracts.

The standard establishes a more systematic approach to the measurement and recognition of income through the introduction of a five-step model to account for revenue arising from contracts with customers. This model requires the Company to: (i) identify the contract with the client, (ii) identify all individual performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the price to the performance obligations identified and (v) recognize revenue as the performance obligations are fulfilled.

Product of the application of IFRS 15, no significant impacts have been presented in relation to the moment in which the Company and its Subsidiaries recognize revenue or whether the income must be recognized gross as a principal or net as an agent. Therefore, the Company and its subsidiaries will continue to recognize revenue for rendered services as they are fulfilled regardless of the collection date, and they are recorded in the period in which they are fulfilled.

- IFRIC 22 "Transactions in foreign currency and anticipated consideration"
  The interpretation clarifies that in determining the spot exchange rate to be used in the initial recognition of the related asset, expense or income (or part of it), on the derecognition of a non-monetary asset or non-monetary liability related to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a transaction date for each payment or receipt of the advance consideration. The Management of the Company and its Subsidiaries concluded that this interpretation had no effect on its consolidated financial statements.

- IAS 40 Investment property - Amendments to IAS 40
  The amendments clarify when an entity should transfer assets, including properties under construction or development into or out of investment property. Furthermore, the amendment state that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of change in use. A change in Management's intentions for the use of a property does not provide evidence of a change in usage if it is applicable but has been given. During the years ended December 31, 2018, 2017 and 2016 there were no transfers into or from investment properties.

- Classification and measurement of share-based payment transactions - Amendments to IFRS 2
  The IASB issued amendments to IFRS 2 "Share-based payments" in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: The effects of acquisition conditions on the measurement of a payment transaction based on shares settled in cash, the classification of a share-based payment transaction with net settlement characteristics to retain tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The Management of the Company and its Subsidiaries concluded that these modifications had no effect on its consolidated financial statements.

- Application of IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts - amendments to IFRS 4"
  The amendments address the concerns arising from the implementation of the new financial instruments standard, IFRS 9, before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from the application of IFRS 9 and an overlay approach. Due to the nature of the operations of the Company and its Subsidiaries, these modifications are not applicable to it.

- Amendments to IAS 28 Investments in associates and joint ventures
  Clarification that may elect, on an investment to investment basis, to measure its investments in associates at fair value through profit or loss. Due to the nature of the operations of the Company and its Subsidiaries, these modifications are not applicable to it.

- First adoption of IFRS 9 "Financial instruments
  The Company adopted in advance IFRS 9 "Financial Instruments", effective on a mandatory basis for annual periods beginning on or after January 1, 2018, taking January 1, 2015 as the date of initial application. At the date of the early adoption of IFRS 9, there were no significant effects on the consolidated financial statements of the Company and Subsidiaries.

3.3. Summary of significant accounting policies –

(a) Basis of consolidation -

The consolidated financial statements comprise the financial statements of the Company and its Subsidiaries, see note 2, as of December 31, 2018 and 2017.

The Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

InRetail Real Estate reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the Subsidiary.

The financial statements of the Subsidiaries are prepared for the same period as the Company's, using uniform accounting policies. All intra-group balances, transactions, gains and losses resulting from intra-group transactions consolidated entities, as well as dividend income, have been eliminated.

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, the consolidated income statement and the consolidated statement of comprehensive income.

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

(b) Financial instruments–initial recognition and subsequent measurement –
As of the date of consolidated financial statements, InRetail Real Estate classifies its financial instruments in the following categories defined on IFRS 9 (version 2018): (i) assets at amortized cost, at fair value through other comprehensive income or through profit or loss, (ii) financial liabilities at amortized cost or at fair value through profit or loss.

The main criteria of IFRS 9 are described below:

(i) Financial assets -

Recognition and initial measurement

Financial assets are classified, at the time of initial recognition and for subsequent valuation, as measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. The financial assets of the Company and its Subsidiaries include cash and cash equivalents, financial investments at fair value through profit or loss and at fair value through other comprehensive income, trade accounts receivable, other accounts receivable and accounts receivable from related parties.

Subsequent measurement

The Company and its Subsidiaries classify their financial assets into the following four categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycle of cumulative gains and losses to the results of the year when they are written off (debt instruments).
- Financial assets at fair value through OCI, without recycle of cumulative gains and losses to the results of the year when they are written off (equity instruments).
- Financial assets at fair value through profit or loss.

The classification depends on the business model of the Company and its Subsidiaries and on the characteristics of the cash flows of the instruments.

Financial assets at amortized cost (debt instruments)

The Company and its Subsidiaries measure financial assets at amortized cost if the following conditions are met:

- The business model that the Company and its Subsidiaries have for the management of financial assets in this category is to collect the contractual cash flows and not to sell or negotiate them; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are only payments of principal and interest on the outstanding principal amount.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. These assets generate income from interest accrued prior to maturity or disposal. Profits and losses are recognized in results when the asset is written off, modified or impaired.

Financial assets are not reclassified after their initial recognition, except if the Company and its Subsidiaries change their business model for management.

This category includes cash and cash equivalents, trade accounts receivable, other accounts receivable and accounts receivable from related parties.

Financial assets at fair value through other comprehensive income: debt instruments
The Company and its Subsidiaries measure debt instruments at fair value with changes in other comprehensive income if both of the following conditions are met:

- The business model for the management of financial assets aims to both collect the contractual cash flows, and obtain results for their sales based on market conditions; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are only payments of principal and interest on the outstanding principal amount.

The Company and its Subsidiaries holds trading bonds in this category and are presented in the caption "Financial investments at fair value through other comprehensive income" in the consolidated statement of financial position.

Equity instruments - shares
Equity instruments (shares) held for trading are recorded at fair value through profit or loss. For other equity instruments, the Company and its Subsidiaries, at the time of initial recognition, must elect to irrevocably classify each equity instrument (shares) at fair value through other comprehensive income or at fair value through profit or loss. The classification is determined on an instrument by instrument basis.

The gains or losses of the shares classified in other comprehensive income are never recycled to profit or loss of the year. Dividends are recognized as other income in the consolidated statement of income when the right to payment has been established, except when the Company and its Subsidiaries benefit from said income as a recovery of part of the cost of the financial asset, in which case, said earnings are recorded in other comprehensive income. These instruments are not subject to impairment evaluation.

The Company and its Subsidiaries have chosen to classify all their investments in shares in this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include: financial assets held for trading, financial assets designated at the time of initial recognition at fair value through profit or loss, or financial assets that must be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the short term, or if they correspond to derivatives that are not designated as effective hedging instruments, or financial assets with cash flows that are not solely payments of principal and interest, regardless of the business model.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value, with net changes in fair value recognized as financial expenses (net negative changes in fair value) or financial income (net positive changes in fair value) in the consolidated statement of income.

The Company and its Subsidiaries holds in this category mutual funds that are presented in the caption "Financial investments at fair value through profit or loss" in the consolidated statement of financial position. Changes in fair value are presented as “Financial income” in the consolidated statement of income.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

(i) The rights to receive cash flows from the asset have expired; or

(ii) Contractual rights have been transferred on the cash flows generated by the asset, or an obligation has been assumed to pay all of these cash flows to a third party without a significant delay, through a transfer agreement ("Pass-through arrangement"), and (a) substantially all the risks and benefits of the asset have been transferred; or (b) substantially all the risks and benefits of the asset have not been transferred or retained, but control over it has been transferred.

The Company and its Subsidiaries will continue to recognize the asset when it has transferred its rights to receive the cash flows from an asset, or has entered into a pass through arrangement, but has not transferred or retained substantially all the risks and benefits of the asset, nor has it transferred the control over it. In this case, the Company and its Subsidiaries will recognize the asset transferred based on its continuous involvement and will also recognize the related liability. The transferred asset and the related liability will be measured on a basis that reflects the rights and obligations retained by the Company and its Subsidiaries.

Impairment of financial assets
The Company and its Subsidiaries recognize an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. The PCE is determined as the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and its Subsidiaries expect to receive, discounted at a rate that approximates the original effective interest rate. The expected cash flows will include cash flows arising from the sale of guarantees held or other guarantees received.

For trade receivables and other accounts receivable, the Company and its Subsidiaries applied the simplified approach in calculating the ECL. Therefore, the Company and its Subsidiaries do not track changes in credit risk, but instead, they recognize a loss allowance based on the ECL for the entire life of each instrument at each reporting date. The Company and its Subsidiaries have established a provision matrix based on the historical credit loss experience, adjusted for factors that consider the expected future variations with the debtors and the economic environment.

(ii) Financial liabilities -

Recognition and initial measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, accounts payable, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and payables, net of directly attributable transaction costs.

Financial liabilities include trade accounts payable, other accounts payable, accounts payable to related entities, debts and loans that accrue interest.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
After the initial recognition, the debts and loans that accrue interest are subsequently measured at amortized cost, using the effective interest rate (EIR) method. Profits and losses are recognized in the consolidated income statement when the liabilities are written off, as well as through the interest accrual process applying the effective interest rate (EIR) method.

The amortized cost is calculated taking into account any discount or premium on the acquisition and the commissions or costs that are an integral part of the effective interest rate. The amortization of the effective interest rate is recognized as a financial cost in the consolidated statement of income.

This category includes current and non-current debts and loans that accrue interest, see note 15.

Derecognition

A financial liability is written off when the obligation has been paid, cancelled or expired. When an existing financial liability is replaced by another from the same lender under substantially different conditions, or when the conditions of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

(c) Compensation of financial assets and liabilities -

Financial assets and financial liabilities are subject to compensation so that the net amount is reported in the consolidated statement of financial position, if there is a current legal right to offset the amounts recognized, and there is an intention to settle them for the net amount, or to realize assets and cancel liabilities simultaneously.

(d) Compensation of financial instruments -

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position, when you have the legal right to offset them and Management intends to cancel them on a net basis or to realize the asset and settle the liability simultaneously.

(e) Transactions in foreign currency -

(i) Functional and presentation currency -

The functional currency is determined by the currency of the primary economic environment. The financial information is presented in soles, which corresponds to the functional currency, because it reflects the nature of the economic events and the relevant circumstances.

(ii) Transactions and balances in foreign currency -
Foreign currency transactions are those that have been realized in currencies different than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency spot rates of exchange at the date of the consolidated statements of financial position. Exchange gains or losses arising from the settlement of said transactions and from translating the monetary assets and liabilities denominated in foreign currency into the spot exchange rates at the end of the year are recognized in the "Exchange difference, net" caption of the consolidated statements of income.

Non-monetary assets and liabilities denominated in foreign currency and accounted at historic cost are translated into the functional currency using the exchange rate at the dates of the initial transactions.

(f) Cash and cash equivalents –
For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise cash, current accounts and bank deposits with maturity three months or less, recorded in the consolidated statements of financial position. Those accounts are not subject to a significant risk of changes in value.

(g) Prepaid expenses -
The criteria adopted to record these items are the following:

- Operating lease payments made in advance are recorded as an asset and recognized as an expense over the rental period.
- The key money corresponding to the amounts paid by InRetail Real Estate for the rights of use of certain commercial stores are amortized during the term of the respective contracts.
- Insurance are recorded at the value of the premium paid for the coverage of the different assets and are amortized applying the straight-line method during the term of the contract.
- Advance payments for advertising are recorded as an asset and recognized as expenses when the service is accrued.

(h) Facilities, furniture and equipment –
Facilities, furniture and equipment are stated at historical acquisition cost net of accumulated depreciation and impairment losses, if any.

The historical acquisition cost includes the expenditures that are directly attributable to the acquisition of the assets. The maintenance and repair costs are recognized as profit or loss in the consolidated statements of income, significant renewals and improvements are capitalized when it is probable that future economic benefits, in excess of what was originally assessed, will occur.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets, as follows:

	Years
Facilities	Between 4 and 10
Furniture and fixtures	Between 2 and 10
Transport units	5
Miscellaneous equipment	Between 3 and 10
Computer equipment	4

Upon the sale or disposal of the asset, the cost and the accumulated depreciation are eliminated, and any gain or loss from their disposal is recognized as profit or loss in the consolidated statements of income.

(i) Investment properties –
Investment properties comprise completed properties and properties under construction or renovation held to earn rentals, for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and the initial leasing commissions to bring the property to the condition necessary for its intended use.

Subsequent to initial recognition, investment properties are measured at fair value, which reflects the market conditions at the reporting date. Gains or losses arising from changes in the fair value of the investment properties are included in the consolidated statements of income for the period in which they arise. Fair values are evaluated periodically by Management.

Investment properties are derecognized either at the moment of their sale or when the investment property is permanently retired from active use, and it is not expected to recover any economic benefit from its sale. The difference between the net disposal proceeds and the carrying amount of the assets is recognized in the consolidated statements of income in the period of derecognition. Transfers are made to or from investment properties only when there is a change in the asset's use.

Properties under construction are recorded at acquisition cost or construction cost. The initial cost comprises its purchase price, plus the directly related costs including professional fees for legal services and any cost directly attributable to bring the property to the condition necessary for its intended use.

The Company and its Subsidiaries' management deem that the carrying amount of properties under construction does not exceed their recoverable value.

(j) Leases -

The determination of whether an agreement is, or contains, a lease is based on the substance of the agreement at the date of its subscription, or if its compliance depends on the use of one or more specific assets, or if it grants the asset's right of use, even if said right is not specified explicitly by the agreement.

The Company and its Subsidiaries as lessee

Finance leases which substantially transfer all risks and benefits incidental to ownership of the leased item to the Company and its Subsidiaries, are capitalized at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are distributed between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that InRetail Real Estate will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated income statement on a straight-line basis over the lease term.

The Company and its Subsidiaries as a lessor

Leases in which the Company and its Subsidiaries do not substantially transfer all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(k) Impairment of non-financial assets –

The Company and its Subsidiaries, assess at each end of year, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company and its Subsidiaries estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash generating unit's (CGU) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate any cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable value, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available.

(l) Taxes –

Current Income tax -

The income tax of the subsidiaries is determined based on the non-consolidated financial statements of each subsidiary.

The recording of deferred income tax has been made in accordance with IAS 12, "Income tax". In this sense, the deferred income tax reflects the effects of temporary differences between the balances of assets and liabilities for accounting purposes and those determined for tax purposes. Deferred assets and liabilities are measured using the tax rates that are expected to be applied to the taxable income in the years in which these differences are recovered or eliminated. The measurement of deferred assets and liabilities reflects the tax consequences arising from the manner in which each individual entity of the Group expects, at the date of the consolidated statements of financial position, to recover or settle the carrying amount of its assets and liabilities.

The assets and liabilities for deferred taxes are recorded without considering the estimated time for the temporary differences to be canceled. Deferred tax assets are recorded when it is probable that there will be sufficient future tax benefits for the deferred asset to be applied. As of the date of the consolidated statement of financial position, unregistered deferred assets and the balance of those recorded are evaluated. A deferred tax asset not previously recognized is recognized to the extent that it is probable that the future tax benefits will allow its recovery. Also, the carrying amount of a deferred tax asset is reduced when it is no longer likely that a sufficient taxable income is available to allow all or part of a deferred asset to be used.

As established in IAS 12, deferred income tax is determined by applying the Income Tax rate applicable to your undistributed earnings, recognizing any additional tax that may arise from the distribution of dividends on the date the liability is recognized.

(m) Provisions -

Provisions are recognized when InRetail Real Estate has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where InRetail Real Estate expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in the consolidated income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated income statement.

(n) Contingencies -

A contingent liability is disclosed when the existence of an obligation shall only be confirmed by future events or when the amount of the obligation cannot be measured with sufficient reliability. Contingent assets are not recognized but are nonetheless disclosed when it is probable that it will generate economic benefits to InRetail Real Estate.

Given their nature, contingencies shall only be settled when one or more future events occur or fail to occur. The determination of contingencies involves inherently the exercise of judgment and the calculation of estimates on the results of future events.

(o) Revenue recognition –

Revenue is recognized to the extent that it is probable that economic benefits will flow to InRetail Real Estate and the amount can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. InRetail Real Estate assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- Rental income

  Rental income arising from operating leases, less InRetail Real Estate's initial direct costs to enter the leases, is accounted for on a straight-line basis over the term of the lease, except for the inflation adjustment and contingent rental income which is recognized when it arises.

- Key money
  The incentives granted by the tenants to enter into lease agreements (key money) are distributed evenly on the term of the lease, even if payments are not made on that basis. The deferral period of the incentives corresponds to the lease's unaccrued period, along with any other period for which the lessee has the option to extend the lease, and InRetail Real Estate's Management have certainty that it will exercise. These amounts are presented in the caption "Deferred income" of the consolidated financial statement. The amounts received from tenants to terminate leases or to compensate for wear-off are recognized in the consolidated statement of income when they arise.

- Income arising from expenses re-invoiced to tenants is recognized in the period in which the compensation becomes receivable. Service and management charges and other such receipts are included in the net rental income gross of the related costs, as the directors consider that InRetail Real Estate acts as principal in this respect.

- Interest income:
  For all financial instruments measured at amortized cost and interest bearing financial assets classified as investments at fair value through other comprehensive income, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in "financial income" in the consolidated income statement.

- Other income is recognized as realized and accrued, and is recorded in the periods to which it relates.

(p) Borrowing costs -
Borrowing costs are recorded as expenses in the period they occur. Borrowing cost consist of interest and other costs that InRetail Real Estate incurs in connection with the borrowing of funds.

(q) Recognition of costs and expenses –
Service cost is recognized in a simultaneous manner to the recognition of the income from the corresponding service provided.
Rentals paid in advance for landlord leases are recognized in results according to an accrual basis, in the "Cost of rental income" caption, from the conclusion of the works of the shopping mall project to a term that ranges between 30 and 36 months.

Lease expenses for rights to use and landlord leases are recognized as they accrue and are recorded in the periods to which they are related.

Loan costs are accounted for as financial expenses in the period they are incurred.
Loan costs include interests and other costs that InRetail Real Estate incurs in relation to the execution of the respective loan agreements.
Other operating costs and expenses are recognized when accrued, regardless of the moment they are paid, and are recorded in the periods to which they are related.

(r) Derivative financial instruments and hedging accounting –

Negotiation –

Derivatives are initially recognized at fair value on the date of subscription of the derivative contract and are subsequently measured again at their fair value. All derivatives are recognized as an asset when the fair value is positive and are presented as "Accounts receivable for derivative financial instruments" in the caption "Other accounts receivable and other assets, net" or as a liability when the fair value is negative and are presented as "Accounts payable for derivative financial instruments" in the caption "Other accounts payable, provisions and other liabilities" of the consolidated statement of financial position.

Derivatives can be designated as hedging instruments under accounting for hedging transactions if they qualify as such. Depending on the nature of the hedged item, the method for recognizing gains or losses from changes in fair value will be different. These derivatives, which are used to hedge risk exposures or modify the characteristics of financial assets and liabilities and which meet the criteria of IFRS 9, are recognized as hedging transactions.

Derivatives that are not designated as hedging instruments or that do not qualify for hedging transactions are initially recognized at fair value and subsequently measured at fair value; which is estimated based on market prices. Gains and losses for changes in fair value are recorded in the consolidated statement of income.

In accordance with IFRS 9, to qualify as hedging transactions, all of the following conditions must be met:

(i) The hedge relationship consists only of hedging instruments and eligible hedged items.

(ii) At the beginning of the hedge relationship and the objective and risk management strategy of the entity to undertake the hedge. This documentation will include the identification of the hedging instrument, the hedged item, the nature of the risk that is being hedged, and how the entity will evaluate whether the hedging relationship meets the hedge effectiveness requirements.

(iii) The hedge relationship meets all the hedge effectiveness requirements if:
- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not predominate over the changes in value that come from that economic relationship.
- The coverage ratio of the hedging relationship is the same as that from the amount of the hedged item that the entity actually covers and the amount of the hedging instrument that the entity actually uses to cover that amount of the hedged item.

IFRS 9 presents three categories to account for hedging transactions: fair value hedge, cash flow hedge and net investment hedge for foreign operations. The Group uses derivatives as cash flow hedging instruments, as detailed in note 13.

For designated derivatives that qualify as a cash flow hedge, the effective portion of the gains or losses on the derivative is recognized in the other comprehensive income by cash flow hedges, and is reclassified to income in the same period or periods in which the hedge transaction of affects the results. The part of the gain or loss in derivatives that represents the ineffective portion or the components of the hedge excluded from the effectiveness evaluation is recognized immediately in the results of the period. The amounts originally recorded in other comprehensive income and subsequently reclassified to results are recorded in the corresponding expense or income lines in which the hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the hedge accounting criteria and also when the Group redesigns a hedge, any accumulated loss or gain in other comprehensive income is retained and recognized as income or expense when the hedged item is ultimately recognized in the consolidated statement of income. When a projected transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately transferred to the consolidated statement of income.

(s) Fair value measurement -

InRetail Real Estate measures its investment properties at fair value at each date of the consolidated statements of financial position. Also, the fair value of financial instruments measured at amortized cost is disclosed in note 31.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by InRetail Real Estate. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

InRetail Real Estate uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, InRetail Real Estate determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, InRetail Real Estate has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

(t) Earnings per share -
Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. As of December 31, 2018 and 2017, the Company does not have financial instruments with dilutive effect, therefore basic and diluted earnings per share are identical for the years reported.

(u) Business segments –
A reportable business segment is an operating segment or an aggregate of operating segments that meet certain specific criteria. Business segments are a component of an entity on which the financial information is separately available and is periodically assessed by the Chief Operating Decision Maker (henceforth "CODM") on how to assign the resources and assess its performance. Generally, the financial information is presented on the same basis that is used internally to assess the operating performance of business segments and to decide how to assign resources to them. InRetail Real Estate has two business segments located in Lima and provinces related to Shopping Malls.

(v) Subsequent events –
The subsequent events at the end of the period that provide additional information about the financial situation of InRetail Real Estate at the date of the consolidated statements of financial situation (adjustment events) are included in the consolidated financial statements. The significant subsequent events that are not adjustment events are presented in the notes to the consolidated financial statements.

(w) Financial statements as of December 31, 2017
When necessary, the amounts of the previous year have been reclassified to make them comparable with the presentation of the current year. Management considers that the reclassifications made in the company financial statements as of December 31, 2017 are not significant taking into consideration the financial statements as a whole.

3.4 Judgments, estimates and significant accounting assumptions

The preparation of the consolidated financial statements requires the Management of InRetail Real Estate to use judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the amounts of income and expenses for the years ended December 31, 2018 and 2017.

In Management's opinion, these judgments, estimates and assumptions have been made based on their better knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements; however, the final results may differ from the estimates included in the consolidated financial statements. Management does not expect changes, if any, to have a significant effect on the consolidated financial statements.

In the process of applying the accounting policies of the Company and Subsidiaries, Management made the following judgments, which had a significant effect on the amounts recognized in the consolidated financial statements:

(i) Operating lease agreements - InRetail Real Estate as lessor (see note 3.3 (j))
InRetail Real Estate has entered into commercial leases of its investment property portfolio. InRetail Real Estate has determined, on the basis of an assessment of the terms and conditions of the agreements, that it has retained all the significant risks and benefits inherent in the ownership of these assets and, consequently, has accounted these contracts as operating leases.

(ii) (ii) Taxes (see note 3.3 (l) and 26)
The originators of the Trust Assets of InRetail Real Estate are subject to the withholding of the income tax by the latter. Significant lawsuits are required to determine the provision for current and deferred income tax.
There are several transactions and calculations for which the determination of taxes and the date of payment are uncertain. Particularly, in the calculation of deferred taxes, the effective tax rate applicable to temporary differences, mainly in investment properties, depends on the method by which the carrying amount of assets or liabilities will be realized.

InRetail Real Estate recognizes current tax liabilities based on estimates of whether additional taxes will be paid. When the final result of these matters is different from the amounts that have been initially recorded, said differences will impact the income and provisions for deferred taxes in the period in which they are determined. Deferred tax assets and liabilities are recognized in net terms by the Company, insofar as they are related to the same Tax Authority and expire in approximately the same period.

The most significant estimates and assumptions considered by the Management of InRetail Real Estate in relation to the consolidated financial statements are as follows:

(i) Depreciation method, estimated useful lives and residual values of facilities, furniture and equipment (see note 3.3(h)) -
The determination of the depreciation method, the estimated useful lives and the residual values of the components of facilities, furniture and equipment involves judgments and assumptions that could be affected if the circumstances change. Management reviews these assumptions periodically and adjusts them prospectively in the case of identifying any change.

(iii) Fair value of the investment properties (see note 3.3 (i))

The fair value of all completed investment properties (commercial and real estate centers) has been determined by Management using the discounted cash flow method. The fair value of the land is determined based on the value assigned by an external appraiser. The external appraiser uses the comparable market method, according to which the fair value of a property is estimated based on comparable transactions. The unit of comparison applied is the price per square meter.

The determination of the fair value of the investment properties requires the use of estimates, such as the future cash flows of the assets (for example: leases, sales, fixed rents to the different types of tenants, variable rent depending on a percentage of sales, operating costs, construction costs (CAPEX), CAPEX maintenance and discount rates applicable to assets). Additionally, development risks, such as construction and abandonment, are also taken into account when determining the fair value of investment property under construction.

The discounted cash flow method involves the projection of a series of periodic cash flows from either a property or a property under development. For this series of projected cash flows, a discount rate is applied to obtain the present value of the income flow associated with the property. The periodic calculation of cash flows is normally determined as rental income net of operational operating expenses for investment properties in operation and in the case of construction investment properties whose advance is significant is determined on the basis of the rates per square meter included in the contracts signed on that date. The series of periodic net operating income, together with an estimate of the terminal value (which uses the traditional valuation method) at the end of the projection period, is discounted to present value. The sum of the net present values is equal to the market value of the property.

The market values of the investment properties in the consolidated statement of financial position should reflect the volatility of the real estate markets; therefore, Management and its independent appraisers use their market knowledge and professional judgment, and do not rely solely on historical comparable transactions. In this sense, there is a greater degree of uncertainty than that presented in a more active market, for estimating the market values of investment properties.

The methods and significant assumptions used in the estimation of the fair value of investment properties are detailed in note 11.

(iii) Valuation of the derivative hedging financial instruments (see note 3.3 (r)) and 12) -
When the fair value of the financial assets and liabilities recorded in the consolidated statement of financial position can not be determined in active markets, they are obtained using valuation techniques that include the discounted cash flow model (DCF). The data for these models are taken from observable markets whenever possible, but when this is not possible, a degree of judgment in the establishment of fair values is required.

Valuations include data estimates such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments, see note 31.

(iv) Estimation of taxes (see note 25)
There are uncertainties regarding the interpretation of complex tax regulations, changes in tax regulations and the amount and opportunity in which the future tax result is generated. InRetail Real Estate calculates provisions, on the basis of reasonable estimates, for the possible consequences derived from the inspections carried out by the Tax Authority. The amount of these provisions is based on several factors, such as the experience in previous tax inspections and the different interpretations about tax regulations, made by InRetail Real Estate and its legal advisors. These differences of interpretation may arise in a wide variety of issues, depending on the circumstances and conditions in the place of domicile of InRetail Real Estate.

InRetail Real Estate considers remote the probability of tax litigations and subsequent disbursements, therefore, no contingent liability related to taxes has been recognized.

In Management´s opinion, InRetail Real Estate, these judgments, estimates and assumptions have been made based on their better knowledge of the relevant facts and circumstances at the date of preparation of the consolidated financial statements; however, the final results may differ from the estimates included in the consolidated financial statements. InRetail Real Estate Management does not expect the changes, if any, to have a significant effect on the consolidated financial statements.

3.5 New accounting standards -

The standards amendments and improvements to the standards that are issued, but not yet effective, at the date of issuance of InRetail Real Estate's consolidated financial statements are disclosed below. InRetail Real Estate intends to adopt these standards amendments and improvements to the standards, if applicable, when they become effective and not in advance:

- IFRS 16 "Leases", effective for annual periods beginning on or after January 1, 2019. It requires a single model for leases, which requires the presentation of an asset representing the right to use the underlying asset and a financial liability that reflects the present value of future lease payments; which, in the income statement, will be presented as depreciation expenses and financial expenses, respectively; however, the net results will not be affected. During the year 2018; the Company has performed a detailed impact assessment of IFRS 16. Management expects that there will be no significant impact due to the adoption of this standard in its financial statements because the InRetail Real Estate Group acts mainly as a lessor.

- IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment", effective for annual periods beginning on January 1, 2019.

- Amendments to IFRS 9 "Financial Instruments", effective for annual periods beginning on January 1, 2019.

- Prepaid features with negative compensation - Amendments to IFRS 9, the amendment must be applied retrospectively and is effective for annual periods beginning on January 1, 2019.

- Long-term interests in associates and joint ventures - Amendments to IAS 28, the amendments are effective for annual periods beginning on January 1, 2019.

- Modifications to the Conceptual Framework for Financial Information effective for annual periods beginning on or January 1, 2020.

- Improvements to the IFRS (cycle 2015-2017) to IFRS 3 "Business combinations", IFRS 11 "Joint arrangements", IAS 12 "Income tax", IAS 23 "Loan costs", effective for annual periods beginning on January 1, 2019 and its early application is allowed.

- IFRS 17 "Insurance contracts", effective for periods beginning on or after January 1, 2021, with comparative figures required. Anticipated application is allowed, provided that the entity also applies IFRS 9 and IFRS 15 on the date when it first applies IFRS 17 or earlier.

- Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" in relation to the sale or contribution of assets between an investor and its associate or joint venture, whose effective application has been postponed in a manner indefinite by the International Accounting Standards Board (IASB), in December 2015.

- Modification, reduction or liquidation of plans: amendments to IAS 19
  The amendments to IAS 19 "Benefits for employees" effective for reductions or liquidations of plans that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019.

In Management´s opinion, these standards will not have a significant impact on the consolidated financial statements of the Company and Subsidiaries.

4. Cash and cash equivalent

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

	2018 S/(000)	2017 S/(000)
Cash and petty cash	37	31
Current accounts (b)	26,901	30,512
Time deposits (c)	-	22,846
Management and security trust current accounts	43	1,033
	26,981	54,422

(b) The current accounts comprise accounts in soles and in US dollars, maintained in local financial institutions, are free of charge, are freely available and do not generate interest.

(c) As of December 31, 2017, they corresponded to deposits denominated in soles and US dollars, which were kept in local financial institutions of the first order. During the year 2018, all deposits were canceled.

5. **Investments at fair value through profit or loss**

Below is the composition of the item as of December 31, 2018 and 2017

Entity	2018 Number of quotes	2018 Quote value (in soles)	2018 S/(000)	2017 Number of quotes	2017 Quote value (in soles)	2017 S/(000)
Investment funds managed by Sura S.A. SAF						
Soles -						
Sura Corto Plazo Soles FMIV	13,563	151.16	2,050	457,208	146.35	66,911
Sura Ultra Cash Soles FMIV	55,660	130.28	7,251	542,193	126.39	68,530
US Dollars -						
Sura Ultra Cash Dólares FMIV	6,558	360.28	2,363	23,642	338.86	8,011
Sura Corto Cash Dólares FMIV	-	-	-	101,331	370.23	37,516
Investment funds managed by Interfondos S.A. SAF (a related entity)						
Soles -						
IF libre disponibilidad FMIV	-	-	-	46,261	109.89	5,084
US Dollars -						
IF Cash FMIV	-	-	-	27,381	236.95	6,488
IF libre disponibilidad FMIV	-	-	-	28,701	331.24	9,507
			11,664			202,047

6. **Investments at fair value through other comprehensive income**

(a) Below is the composition of the item as of December 31, 2018 and 2017

	2018						2017					
				Gross amount not realized						Gross amount not realized		
	Number of shares	Price per share S/	Cost S/(000)	Profit S/(000)	Losses S/(000)	Estimated fair value S/(000)	Number of shares	Price per share S/	Cost S/(000)	Profit S/(000)	Losses S/(000)	Estimated fair value S/(000)
Shares (b)												
Inretail Perú Corp.	1,368,825	95.62	109,059	21,836	-	130,895	510,729	68.15	33,995	809	-	34,804
Bonds (c)												
Intercorp Ltd.	-	-	-	-	-	-	-	-	21,101	498	-	21,599
Total			109,059	21,836	-	130,895			55,096	1,307	-	56,403

(b) As of December 31, 2018 and 2017, the fair value of these shares has been determined on the basis of their stock market price (Lima Stock Exchange).

(c) As of December 31, 2017, corresponds to the bonds issued by Intercorp Ltd., which were sold during the first semester of 2018.

7. Trade accounts receivables, net

(a) Below is the composition of the item as of December 31, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Bills receivable (b)	17,975	16,459
Unbilled services (c)	15,079	13,561
Receivable bills of exchange (b)	1,815	1,972
	34,869	31,992
Minus -		
Allowance for doubtful accounts (e)	(8,579)	(6,021)
	26,290	25,971

(b) Corresponds mainly to rents, which are denominated in soles and US dollars, have current maturity and do not bear interest.

(c) Corresponds mainly to accrued lease services not billed for the concept of variable income and fixed income, which are billed during the following quarter.

(d) As of December 31, 2018 and 2017 the aging analysis of trade receivables is as follows:

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

	2017		
	Non-impaired S/(000)	**Impaired** S/(000)	**Total** S/(000)
Unbilled services	13,561	-	13,561
Past-due			
From 1 to 90 days	11,550	-	11,550
From 91 to 120 days	317	113	430
From 121 to 180 days	367	240	607
From 181 to 270 days	102	376	478
More than 270 days	74	5,292	5,366
	25,971	6,021	31,992

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

(e) The movement of the provision for impairment as of December 2018, 2017 and 2016 is as follows:

	2018 S/(000)	**2017** S/(000)	**2016** S/(000)
Balance as of January 1	6,021	5,167	5,492
Additions, see note 21	2,209	1,970	2,051
Recoveries, see note 21	(211)	(1,103)	(2,422)
Adjustment for difference in exchange	(31)	(13)	46
Others	591	-	-
Balance as of December 31	8,579	6,021	5,167

In Management's opinion, the for impairment adequately covers the credit risk as of December 31, 2018 and 2017.

8. Other receivables

(a) Below is the composition of the item as of December 31, 2018 and 2017

	2018 S/(000)	2017 S/(000)
Funds held in Banco de la Nación (b)	15,435	20,422
Advance payments to suppliers	3,357	680
Claims and deliveries to render	2,226	379
Trust guarantee, see note 15 (d)	1,603	1,603
Others	2,313	1,385
	24,934	24,469

(b) Corresponds to the funds held in the detraction account by the InRetail Real Estate Subsidiaries The funds held as of December 31, 2018 and 2017 were entirely used for the payment of taxes during the months of January and February of 2019 and 2018 respectively, in accordance with the applicable tax legislation.

(c) In Management's opinion, there is no credit risk, and therefore, it is not necessary to establish an impairment allowance as of December 31, 2018 and 2017.

9. Recoverable taxes

(a) The composition of this caption as of December 31, 2018 and 2017 is presented below:

Por tipo:	2018 S/(000)	2017 S/(000)
Value-added-tax credit (b)	20,315	22,031
Income Tax credit	3,822	1,821
Retentions and perceptions	901	1,905
	25,038	25,757
By term:		
Current	22,206	9,605
Non-current	2,832	16,152
	25,038	25,757

(b) It originates mainly due to the expansion and construction of the Shopping malls owned by the Company and its Subsidiaries, as well as other disbursements related to its operations. The Group Management considers that this balance will be recovered with the general sales tax that is applicable to future rental income of the property.

10. Facilities, furniture and equipment, net

(a) The movement of facilities, furniture and equipment and accumulated depreciation, for the years ended as of December 31, 2018 and 2017, is as follows:

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Computer equipment and miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
Cost						
Balance as of January 1, 2017	5,560	4,320	493	8,425	178	18,976
Additions (c)	263	215	478	1,176	170	2,302
Disposals	-	(349)	(273)	(14)	-	(636)
Balance as of December 31, 2017	5,823	4,186	698	9,587	348	20,642
Additions (c)	58	20		2,103	17	2,198
Net addition, by acquisition of C.C. Estación Central (Note 2)	41	9	-	8	-	58
Disposals	-	-	(2)	-	-	(2)
Balance as of December 31, 2018	5,922	4,215	696	11,698	365	22,896
Accumulated depreciation						
Balance as of January 1 2017	1,986	2,285	174	3,955	-	8,400
Depreciation of the year, see note 21	1,107	611	130	1,612	-	3,460
Disposals	-	(235)	(162)	(13)		(410)
Balance as of December 2017	3,093	2,661	142	5,554	-	11,450
Depreciation of the year, see note 21	1,134	479	139	1,590	-	3,342
Balance as of December 2018	4,227	3,140	281	7,144	-	14,792
Net cost -						
As of December 31, 2017	2,730	1,525	556	4,033	348	9,192
As of December 31, 2018	1,695	1,075	415	4,554	365	8,104

(b) As of December 2018 and 2017, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) Management periodically reviews the residual values, useful life and the depreciation method to ensure that they are consistent with the economic benefits and the life expectancy of the fixed assets. In Management's opinion, there is no evidence of impairment in its fixed assets As of December 2018 and 2017.

(d) As of December 2018 and 2017, the cost and corresponding accumulated depreciation of assets acquired through finance leases are the following:

	December 31 2018			December 31 2017			December 31 2016		
	Cost S/(000)	Accumulated depreciation S/(000)	Net Cost S/(000)	Cost S/(000)	Accumulated depreciation S/(000)	Net Cost S/(000)	Cost S/(000)	Accumulated depreciation S/(000)	Net Cost S/(000)
Miscellaneous equipment	5,990	(4,183)	1,807	5,431	(3,271)	2,160	4,885	(2,072)	2,813

11. Investment properties

(a) Below is the composition of the item as of December 31, 2018 and 2017

	2018 S/(000)	2017 S/(000)	Year of acquisition or construction	Profit (loss) valorization 2018 S/(000)	Profit (loss) valorization 2017 S/(000)	Profit (loss) valorization 2016 S/(000)	Valuation methodology 2017 / 2018
Shopping Malls built on their own land:							
Chiclayo – Province	273,260	262,796	2005	(1,271)	7,420	4,171	DCF
Piura – Province	241,128	231,111	2011	7,426	5,849	2,852	DCF
Primavera - Lima	226,960	222,477	2011	(7,538)	880	(1,134)	DCF
Trujillo – Province	207,439	194,714	2007	1,662	9,375	(1,723)	DCF
Pucallpa – Province	167,717	-	2018	(5,041)	-	-	DCF
Santa Clara – Lima	105,009	102,979	2010	355	5,433	397	DCF
Pro – Lima	109,199	106,905	2008	1,864	8,467	5,021	DCF
Cajamarca - Province	98,442	96,057	2013	1,996	(16,848)	(144)	DCF
Guardia Civil – Lima	77,922	76,085	2012	1,119	3,844	(2,713)	DCF
Sullana – Province	41,228	39,472	2013	1,624	(5,837)	(3,249)	DCF
Nuevo Chimbote – Province	29,116	17,612	2011	3,646	(2,957)	(845)	DCF
Lurín – Lima	18,156	17,631	2010	524	1,869	(9,138)	DCF
Shopping Malls built on surface rights or usufruct (*):							
Salaverry – Lima	468,989	462,095	2014	3,861	32,992	19,333	DCF
San Antonio Cusco – Province	265,564	260,128	2013	4,051	7,975	(2,913)	DCF
Centro Cívico – Lima	235,604	233,451	2010	1,106	1,062	(2,723)	DCF
Huancayo – Province	167,370	158,189	2008	(3,996)	(16,895)	(3,117)	DCF
Huánuco – Province	120,781	116,370	2012	3,925	(2,873)	(2,147)	DCF
Juliaca – Province	95,917	95,634	2011	(773)	(220)	5,021	DCF
Arequipa – Province	80,820	85,802	2010	(10,627)	(31,631)	(7,002)	DCF
Villa María – Lima	48,178	42,986	2017	(1,255)	2,965	-	DCF
Others	2,195	-	2018	(587)	-	-	DCF
Estate:							
Inmueble Jirón de la Unión – Lima	18,604	18,768	2011	(163)	(1,879)	(1,066)	DCF
Inmueble San Juan de Lurigancho – Lima	10,909	10,650	2011	93	85	34	DCF
	3,110,507	2,851,912		2,001	9,076	(1,085)	
Landbank:							
Rex – Lima	59,896	58,088	2014	1,927	643	(521)	Appraisal
Chacarilla – Lima	36,221	34,005	2014	2,182	(434)	645	Appraisal
Carabayllo – Lima	24,420	23,405	2012	1,017	148	405	Appraisal
Valle Cañete – Lima	17,376	15,984	2010	1,393	(608)	433	Appraisal
Tarapoto – Province	16,348	15,665	2012	564	(173)	166	Appraisal
Zapallal – Lima	15,017	13,784	2012	1,025	317	(219)	Appraisal
Nuevo Chimbote – Province (**)	13,870	12,995	2011	875	118	1,293	Appraisal

				Profit (loss) valorization			
	2018 S/(000)	2017 S/(000)	Year of acquisition or construction	2018 S/(000)	2017 S/(000)	2016 S/(000)	Valuation methodology 2017 / 2018
Lurín 2 - Lima	12,284	-	2018	(74)	-	-	Appraisal
Santa Clara - Lima (**)	11,558	11,005	2010	553	167	420	Appraisal
Sullana - Province (**)	11,134	10,669	2013	465	98	1,299	Appraisal
Pisco - Lima	5,151	4,809	2012	341	85	(76)	Appraisal
Trujillo - Province (**)	4,802	4,654	2007	148	153	38	Appraisal
Puruchuco - Lima (**)	1,610	1,533	2018	77	8	(9,542)	Appraisal
Lurín - Lima (**)	3,935	3,689	2016	246	(55)	3,744	Appraisal
	233,622	210,285		10,739	467	(1,915)	
Shopping Mall under construction:							
Puruchuco - Lima	327,186	140,203	2018	5,397	1,881	14,056	DCF
Total	3,671,315	3,202,400		18,137	11,424	11,056	

DCF: Discounted cash flow

(*) The surface rights agreements that involve parcels on which the InRetail Group has built shopping malls have a validity ranging from 20 to 70 years.

(**) It corresponds to parcels adjacent to the operational shopping malls owned by the InRetail Group for future extension.

(b) Following is the movement of investment properties:

	2018 S/(000)	2017 S/(000)
Balance as of January 1	3,202,400	3,105,461
Additions:		
Project in construction– Puruchuco Shopping Mall (c)	181,586	3,509
Acquisition of Real Plaza Pucallpa Shopping Mall (d)	181,216	-
Works for expansions and remodeling (*)	81,278	66,871
Acquisition of lands (f)	12,358	16,095
Acquisition of Estación Central Shopping Mall, note 2	2,798	-
Sale and disposal (e)	(8,458)	(960)
Fair value adjustment (a)	18,137	11,424
Balance as of December 31	3,671,315	3,202,400

(*) As of December 31, 2018 and 2017, corresponds mainly to enlargements and/or refurnishing of the following shopping malls and properties:

Shopping mall – SM	Description	2018 S/(000)
Huancayo	Expansion of the Shopping Mall that includes the remodeling of the food court and the opening of H & M.	13,177
Primavera	Expansion of the Shopping Mall that includes the remodeling of the food court and the opening of H & M.	12,021
Chiclayo	Expansion of the Shopping Mall that includes the opening of IPAE.	11,735
Trujillo	Expansion of the Shopping Mall that includes the opening of IPAE.	11,063
Nuevo Chimbote	Expansion of the Shopping Mall that includes a supermarket and a home improvement store.	7,858
Villa María	Expansion of the Shopping Mall.	6,447
Arequipa	Remodeling the Shopping Mall.	5,645
Salaverry	Improvement of common areas.	3,033
Piura	Extension and architecture of the Shopping Mall for the opening of smaller stores.	2,591
	Others less than S/(000) 1,500.	7,708
		81,278

Shopping mall - SM	Description	2017 S/(000)
Arequipa	Indemnities for the application of the penalty for reduction of the area assigned to Tiendas Peruanas S.A. (Breach of contract) and remodeling made to the Shopping Mall.	13,828
Primavera	Expansion of the Shopping Mall for the opening of a fast-fashion and a new banking area.	13,219
Huancayo	Expansion of the Shopping Mall that includes food court and the Opening of H&M.	11,691
Nuevo Chimbote	Expansion of the Shopping Mall for the opening of a supermarket and a home improvement store.	8,580
Trujillo	Expansion of the Shopping Mall for opening of the smaller stores.	7,863
Cusco	Expansion of the Shopping Mall for opening of the smaller stores.	4,539
Piura	Expansion of the Shopping Mall for opening of the smaller stores.	4,297
Huánuco	Expansion of the Shopping Mall for works carried out to improve road access to the Shopping Mall.	1,692
	Others less than S/(000) 1,500.	1,162
		66,871

(c) Puruchuco is a property located in the district of Ate, province of Lima; the parcel was acquired in 2014. In July 2018, a lease between Scotiabank del Perú S.A.A. and Patrimonio en Fideicomiso-D.S. N°0093-2002–EF Interproperties Perú for S/430,000,000 was signed to build a shopping mall; said amount was the estimated value for the construction of the shopping mall. As of December 31, 2018, Scotiabank del Perú S.A.A. has disbursed approximately S/111,626,000, see note 15(c). The construction of the shopping mall's shell started in August 2018 and the date of completion of the construction works has been scheduled for the second half of 2019.

(d) In January 2018, the Subsidiary Patrimonio en Fideicomiso-D.S.N°0093-2002–EF Interproperties Holding II acquired the shopping mall "Real Plaza Pucallpa" from Interseguro Compañía de Seguros S.A. (a related entity) for S/180,000,000, which was paid in cash at the signing of the purchase agreement. In 2018, approximately S/ 1,216,000 was invested to improve the shopping mall and attract new customers.

(e) As of December 31, 2018, it was reinvoiced due to the store implementation of the tenant "Tiendas Peruanas Oriente S.A.C.", a related entity, in the Real Plaza Pucallpa Shopping Mall, for a value of S/9,724,000 with an incurred cost of S/8,458,000, with a net profit of S/1,266,000, see note 23. This transaction was financed at an annual effective rate of 9 percent, due in the year 2021, according to schedule, see note 26 (b).

(f) The purchases of land were made from third parties, in cash and at market values at the date of acquisition.

(g) As of December 2018 and 2017 the Company and its Subsidiaries do not have properties classified in Level 1 or 2 of the fair value hierarchy. As of said dates, the fair value of the investment properties was classified in Level 3 and has been determined through the discounted cash flow methodology (DCF) for operating commercial centers and real estate and a valuation formulated by an independent professional registered in the "Consejo Nacional de Tasadores-CONATA" and the "Registro de Peritos Valuadores" (REPEV) in the Superintendency of Banking and Insurance (SBS).

According to the provisions of note 3.3 (i), in order to estimate the fair values of the investment properties, the Management of the Company and its Subsidiaries have used their knowledge of the market and professional judgment.

A brief description of the assumptions considered for the calculation of cash flows, which are prepared on an added and unlevered basis, as of December 31, 2018 and 2017, are presented below:

	Percentage	
	2018	2017
- Long-term inflation - Is the increase of the general level of prices expected in Peru for the long term.	2.5	2.5
- Long-term average occupancy rate - The expected occupancy rate is considered	98.64	97.81
- Average growth rate of rental income - Is the rate that expresses the rental income growth and includes growth factors of the industry, inflation rates, stable exchange rate, per capita income and increasing expenses.	2.5	2.5
- Average EBITDA margin - Is projected from the rental income from leasable areas by property and marketing income, less costs related to administration fees, other administrative expenses, insurance, taxes and other expenses.	84.51	84.48

The fair value of parcels is determined based on the value set by an external appraiser. The external appraiser uses the comparative market analysis, through which the fair value of a property is estimated based on similar transactions. The unit of comparison applied by the InRetail Group is the price per square meter. As of December 31, 2018, the parcels' price range per square meter and the average price per square meter in the geographical area of the parcels are as follows:

Land	**Range** US$	**Average** US$
Rex – Lima	606 - 704	683
Cañete	230 - 265	249
Chacarilla – Lima	2,200 - 2,800	2,511
Carabayllo – Lima	120 - 157	142
Carabayllo II – Lima	300 - 350	325
Pisco	110 - 268	180
Tarapoto	268 - 320	296
Zapallal	300 - 411	358
Lurín 2	309 - 400	350

(h) The sensitivity analysis on the valuation of investments in properties is presented below, together with changes in factors that Management deems more important:

	Rates change	**2018** S/(000)	**2017** S/(000)
Average growth rate of rents (basis) – 2.50%			
Increase	+0.25%	98,606	91,152
Decrease	-0.25%	(92,163)	(85,495)
Discount rate (basis) – 9.00%- 9.17%			
Increase	+0.5%	(217,849)	(199,937)
Decrease	-0.5%	248,588	226,988

(i) The amount of the future fixed minimum income per currency corresponding to the leases of the investment properties of the Company and its Subsidiaries is as follows:

Year	Related parties		Third parties		Total	
	US$(000)	S/(000)	US$(000)	S/(000)	US$(000)	S/(000)
2018	4,374	84,383	2,271	125,364	6,645	209,747
2019	3,991	78,260	1,825	87,684	5,816	165,944
2020	3,916	72,927	1,651	62,195	5,567	135,122
2021	3,916	70,505	1,636	45,759	5,552	116,264
2022-2044	56,636	1,108,873	26,334	402,531	82,970	1,511,404
Total	72,833	1,414,948	33,717	723,533	106,550	2,138,481

12. Derivative financial instruments – "Call spread"

The composition of this caption as of December 31, 2018 and 2017 is presented below:

	Counterpart	Reference amount US$(000)	Expiration	Fair Value 2018 S/(000)	Fair Value 2017 S/(000)
Cash flow hedge					
Call spread	J.P. Morgan	350,000	April-2028	77,257	-
Call spread	J.P. Morgan	200,000	July-2021	-	30,279
				77,257	30,279

In March 2018, InRetail Shopping Malls settled the call spread early, whose maturity was in July 2021 and which hedged the issuance of senior notes by InRetail Shopping Malls up to a value of USD 200,000,000 (see Note 20(d)). The early settlement of the derivative included the settlement of the liability created by the financing received from J.P. Morgan for the acquisition of the derivative; as of December 31, 2017, the value of this liability amounted to around US$12,784,000 (equivalent to around S/41,485,000) (see Note 15) as a result of this transaction: a total net expense of S/17,109,000 was generated, which is presented in "Financial expenses – Premium for early cancellation of call spread "of the consolidated statement of income, see Note 24, and ii) a liability in favor of J.P. Morgan up to approximately US$4,050,000 (equivalent to approximately S/13,202,000) presented in the "Financial Obligations" caption of the consolidated statement of financial position and which was financed by said Entity in the same terms as the financing granted for the acquisition of a new derivative instrument - "Call Spread" explained in the following paragraphs.

On the other hand, in March 2018, InRetail Shopping Malls contracted a new "Call Spread" with JP Morgan for a reference value of US$400,000,000 with the purpose of reducing the exposure to the risk of exchange rate originated by the currency debts. Foreign currency issued in April 2018 by InRetail Shopping Malls, (see note 15). The referential value of the contract exceeded in US$50,000,000 the debt to be hedged; therefore, Management made a novation in favor of InRetail Pharma S.A. (a related Entity) for the amount indicated in excess. Until the novation date, the excess of the reference value over the hedged financial liability was recorded as a speculative derivative financial instrument, generating an expense of S/4,197,000, which is presented under "Financial expenses - Loss per speculative financial instrument" On the consolidated statement of income, see note 24.

This hedging instrument covers the variations in the exchange rate in a range between 3.26 and 3.75 per US $ 1.

The cost of the premium financed per the derivative financial instrument, after the effects of the novation and early cancellation of the Call Spread explained above, was financed by J.P. Morgan, generating a liability whose as of December 2018 total balance amounts to approximately US$22,660,000 (equivalent to approximately S/76,567,000), see Note 15(a). In accordance with the provisions of IFRS 9, the cost of the financed premium was charged to non-current assets under the heading "Derivative financial instrument - Call Spread", and is recognized in income in the "Financial expenses" caption. linear form during the term of the coverage. In this sense, the amount accrued during the year ended December 31, 2018 amounted to S/4,994,000 and is presented in the caption "Financial Expenses - premium amortization by derivative financial instrument", see Note 24.

In addition, as of December 31, 2018, the effect of the hedge of this derivative financial instrument amounts to US$8,200,000 (equivalent to S/27,708,000), this amount is presented as "Unrealized results" in the Consolidated Statement of Other Comprehensive Income, net of deferred income tax amounting to approximately US$3,680,000 (equivalent to approximately S/12,399,000) presented in the caption "Tax related to Special Purpose Entities" on Consolidated Statement of Financial Position, see note 25(f).

13. Trade accounts payables

(a) The composition of this caption as of December 31, 2018 and 2017 is presented below:

	2018 S/(000)	2017 S/(000)
Third parties (b)	45,124	32,941
Provisions for unbilled services but received (c)	9,830	7,464
	54,954	40,405
By term:		
Current	46,044	31,866
Non-current	8,910	8,539
	54,954	40,405

(b) Trade accounts payable mainly comprise obligations with contractors for the construction and / or remodeling of the Shopping Malls. The invoices to pay are denominated in soles and in US dollars, and do not accrue interest.

(c) Corresponds to provisions of services received and not invoiced by the suppliers, mainly for the services of the construction companies provided in the last quarter of the period. In Management's opinion of the Company and its Subsidiaries, such provisions are sufficient to meet the liabilities once they are invoiced.

14. Others liabilities

(a) The composition of this caption as of December 31, 2018 and 2017 is presented below:

	2018 S/(000)	2017 S/(000)
Interests payable (b)	27,091	36,198
Deferred income (c)	16,814	23,411
Deposits from third parties	3,593	2,719
Workers' profit sharing	2,236	3,486
Taxes payable	1,504	2,715
Remunerations and social benefits	1,344	463
Vacation payable	186	281
Tax Debit for General Sales Tax	435	-
Other accounts payable	15,887	10,546
	69,090	79,819

	2018 S/(000)	2017 S/(000)
By term:		
Current	59,012	60,209
Non-current	10,078	19,610
	69,090	79,819

(b) Corresponds mainly to the interest payable originated by the issued bonds, see note 15(b), and the financing obtained in relation to the acquisition of the derivative financial instrument - "Call spread", see note 12.

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

	2018 S/(000)	2017 S/(000)
Key money (c.1)	14,362	16,019
Advanced rents	1,591	6,184
Other deferred income	861	1,208
	16,814	23,411

(c.1) The movement of the deferred income of key money as of December 31, 2018, 2017 and 2016 is as follows:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Balance as of January 1	16,019	18,293	21,032
Additions	5,028	4,727	6,668
Accrued key money, note 19	(6,685)	(7,001)	(9,407)
Balance as of December 31	14,362	16,019	18,293

15. Financial obligations

(a) The composition of this caption as of December 31, 2018 and 2017 is presented below:

Type of obligation	Subsidiary	Original currency	Interest rate %	Payment of interest	Maturity	Original amount in thousands	2018 Total S/(000)	2018 Current S/(000)	2018 Non-current S/(000)	2017 Total S/(000)	2017 Current S/(000)	2017 Non-current S/(000)
Bond Issuance (b)												
Senior Notes Unsecured (b.1)	Inretal Shopping Malls	US$	5.75	Biannual	2028	350,000	1,100,785	-	1,100,785	-	-	-
Senior Notes Unsecured (b.1)	Inretal Shopping Malls	US$	6.50	Biannual	2021	350,000	-	-	-	916,875	-	916,875
Senior Notes Unsecured (b.2)	Inretal Shopping Malls	S/	6.56	Biannual	2028	313,500	309,540	-	309,540	-	-	-
Senior Notes Unsecured (b.2)	Inretal Shopping Malls	S/	7.88	Biannual	2034	141,000	135,446	-	135,446	135,383	-	135,383
							1,545,771	-	1,545,771	1,052,258	-	1,052,258
Leasing												
Unrelated parties												
Scotiabank del Perú S.A.A. (c)	Interproperties Holding II	S/	6.70	Quarterly	2025	109,660	109,060	-	109,060	-	-	-
Banco de Crédito del Perú S.A., enlargement of Section 2A of Real Plaza Chiclayo Shopping Mall (d)	Interproperties Holding II	S/	7.97	Monthly	2023	32,926	19,709	3,569	16,140	23,004	3,292	19,712
Banco de Crédito del Perú S.A., enlargement of Section 2B of Real Plaza Chiclayo Shopping Mall (d)	Interproperties Holding II	S/	8.06	Monthly	2023	20,726	13,199	2,038	11,161	15,072	1,874	13,198
Banco de Crédito del Perú S.A., purchase of property of Real Plaza Chiclayo Shopping Mall (d)	Interproperties Holding II	S/	8.02	Monthly	2019	54,748	4,223	4,223	-	9,320	5,098	4,222
Others	Real Plaza S.R.L.	US$	Between 2.72 and 6.20	Monthly	Between 2019 and 2021	850	1,399	736	663	1,561	641	920
							147,590	10,566	137,024	48,957	10,905	38,052
Related parties												
Banco Internacional del Perú S.A.A. – purchase of transport units, note 26 (b)	Real Plaza S.R.L	US$	Between 5.25 and 5.40	Monthly	2020	208	171	150	21	324	158	166
							171	150	21	324	158	166
							147,761	10,716	137,045	49,281	11,063	38,218
Promissory notes and loans												
Unrelated parties												
Scotiabank del Perú S.A.A.	Inretal Shopping Malls	S/	6.7	Quarterly	2019	100,000	24,941	24,941	-	49,785	24,844	24,941
Derivative financial instruments – "Call spread", note 12												
JP Morgan S.A.	Inretal Shopping Malls	US$	10.5	Biannual	2028	23,440	76,567	5,170	71,397	-	-	-
JP Morgan S.A.	Inretal Shopping Malls	US$	1.84	Biannual	2021	18,111	-	-	-	41,485	9,299	32,186
Total							1,795,040	40,827	1,754,213	1,192,809	45,206	1,147,603

(b.1) In April 2018, InRetail Shopping Malls, subsidiary of the Company, issued corporate bonds called "5.750 Unsecured Senior Notes" for US$68,312,000, under the Rule 144A and the Regulation S of the United States' Securities Act of 1993.

The amount resulting from this issuance was used to pre-pay the bond holders that chose not to participate in the bonds exchange, as explained in the following paragraph.

InRetail Shopping Malls made a bond exchange offer aimed at holders of the "6.5% Senior notes due 2021", which were issued in 2014, thus exchanging bonds for US$263,723,000 and generating financial charges for around US$17,965,000 in the caption "Financial obligations" that amounts to US$281,688,000. Consequently, considering the bond issuance of April 2018 and the bonds exchange, the amount of "5.75% Senior Unsecured Notes" is US$350,000,000.

This obligation was recorded in the consolidated financial statements at its amortized cost, after considering the structure costs amounting to around US$24,228,000 (equivalent to S/81,865,000) as of December 31, 2018.

The Company's Management concluded that the aforementioned bond exchange did not generate a significant modification in the terms and conditions of the financial liability; therefore, it did not recognize a new financial liability. The original costs of the transaction related to the exchanged bonds will continue to be amortized based on the calendar of the new bond.

International issues are listed on the Luxembourg Stock Exchange. On the other hand, local and international issues maintain certain financial and operational covenants, which, In Management's opinion, do not limit their operations. The Company and its Subsidiaries have complied with the financial and operational "covenants" at the dates of the consolidated statement of financial position.

(b.2) In April 2018, debt instruments ("Notes") in Soles were issued for S/313,500,000, which accrue interests at an annual interest rate of 6.5625 percent paid every six months, mature in 10 years and whose principal is paid in one installment at their maturity date. This obligation is recorded in the consolidated financial statements at amortized cost at an effective annual rate of 6.730 percent, after considering structure costs of around S/3,960,000 as of December 31, 2018.

In July 2014, InRetail Real Estate Corp. issued through InRetail Shopping Malls, a private offering in the local market and abroad of "Senior Unsecured Notes" for S/141,000,000 which bear annual interest rate of 7.875 percent, and mature in 2034. These obligations were recognized in the consolidated financial statements at amortized cost and includes issuance charges for approximately S/1,554,000 as of December 31, 2018 (S/1,676,000 as of December 31, 2017). Additionally, as of December 31, 2018, is presented net of S/4,000,000, corresponding to these "Senior Unsecured Notes" held by InRetail Shopping Malls.

(c) Financial leasing up to S/430,000,000 to be paid in 19 quarterly installments, twenty-seven months after the first disbursement (June 2018); this obligation is only associated with the construction and commissioning of the Real Plaza Puruchuco Shopping Mall. As of December 2018, the Scotiabank del Perú S.A.A has disbursed approximately S/109,060,000 (see note 11 (c)), which is net of its restructuring cost of S/2,566,000.

(d) This obligation has a trust and administration trust, through La Fiduciaria SA, (a linked Entity) through which the future cash flows of the collection rights of the lease, sublease, usufruct and any type of contract were assigned. that the tenants of the Real Plaza Chiclayo Shopping Mall must pay for the following: (a) rent (fixed and/or variable), use, penalties, indemnities, right of key and / or any type of consideration; (b) commissions for events and sponsorships or leases of advertising spaces; and, (c) in general, any type of collection specific to the business of the Real Plaza Chiclayo Shopping Mall, which constitute the trust assets that have been assigned to the Trust Estate managed by La Fiduciaria S.A. In support of this financing, an additional guarantee has been constituted called reserve account, the same as of December 2018 and 2017 amounted to approximately S/1,603,000, and is presented in the caption "Other accounts receivable" in the consolidated statement of financial situation, see note 8.

As of December 31, 2018 and 2017, the Company and its Subsidiaries must comply with certain obligations and restrictive clauses in relation to this financing. In Management's opinion of the Company and its Subsidiaries, these obligations and restrictive clauses have been satisfactorily completed and are within the established limits.

(e) Future minimum payments for the leasing described in subsection (a) of this Note, net of future financial charges, are as follows:

	Total 2018		Total 2017	
	Minimum Payments S/(000)	Present value of the leasing installments S/(000)	Minimum Payments S/(000)	Present value of the leasing installments S/(000)
Until 1 year	13,303	10,717	14,547	11,064
Between 1 and 3 years	133,708	129,423	29,398	23,513
Over 3 years	7,983	7,622	15,964	14,704
Total minimum payments	154,994	147,762	59,909	49,281
Minus- amounts representing finance charges	(7,232)	-	(10,628)	-
Present value of future minimum payments	147,762	147,762	49,281	49,281

(f) Future payments for bonds issued including interest expenses, but not including structuring costs, are as follows:

	2018			2017		
	Principal S/(000)	Interest S/(000)	Total S/(000)	Principal S/(000)	Interest S/(000)	Total S/(000)
2018	-	-	-	-	73,895	73,895
2019	-	98,675	98,675	-	73,895	73,895
2020	-	98,912	98,912	-	73,895	73,895
Until 2034	1,545,771	761,910	2,307,681	1,052,258	149,968	1,202,226
	1,545,771	959,497	2,505,268	1,052,258	371,653	1,423,911

16. Deferred Income Tax

(a) As of December 2018 and 2017, the deferred assets and liabilities presented in the consolidated statements are as follows:

	2018		2017	
	Deferred asset S/(000)	Deferred liability S/(000)	Deferred asset S/(000)	Deferred liability S/(000)
Inmobiliaria Puerta del Sol S.A.	-	30,156	-	26,846
Real Plaza S.A.	1,521	631	1,521	632
Centro Comercial Estación Central S.A.	301	-	-	-
Total	1,822	30,787	1,521	27,478

(b) The detail of the deferred Income Tax assets and liabilities is as follows:

	Balance as of January 1, 2017 S/(000)	Income (expense) in consolidated statement of income S/(000)	Balance as of December 31, 2017 S/(000)	Initial matches of C.C. Estación Central S.A. as of January 1, 2018 S/(000)	Income (expense) in consolidated statement of income S/(000)	Balance as of December 31, 2018 S/(000)
Total deferred assets	1,106	415	1,521	274	27	1,822
Deferred liabilities -						
Valuations gains from investment properties	(12,895)	(5,619)	(18,514)	-	(1,198)	(19,712)
Tax depreciation of investment properties	(6,142)	(2,190)	(8,332)	-	(2,221)	(10,553)
Others	(15)	(617)	(632)	-	110	(522)
Total deferred liabilities	(19,052)	(8,426)	(27,478)	-	(3,309)	(30,787)
Deferred income tax liability	(17,946)	(8,011)	(25,957)	274	(3,282)	(28,965)

(c) The expense for income tax presented in the consolidated statement of income for the years ended December 31, 2018, 2017 and 2016 is composed as follows:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Current	2,035	4,158	(2,484)
Tax related to special purposes entities, note 25(f)	46,503	53,707	(52,638)
Deferred	3,282	8,011	(1,027)
Total	51,820	65,876	(56,149)

(d) The following is the determination of the income tax:

	2018		2017		2016	
	S/000	%	S/000	%	S/000	%
Income before income tax	175,167	100	202,942	100	184,074	100
Theoritical expenses	51,674	29.5	59,868	29.5	51,541	28
Effect of permanent differences	146	0.08	2,775	1.37	4,608	2.5
Effect of rate change	-	-	3,233	1.59	-	-
Expense for income tax	51,820	29.58	65,876	32.46	56,149	30.50

17. Commitments

During the year 2018, corresponded to letters of guarantee in favor of third parties for approximately S/8,782,000 and US$ 3,620,000, equivalent to S/12,196,000 issued by Banco Internacional del Perú S.A.A. - Interbank, related entity, with maturity in the period 2019 (S/10,635,000 and US $ 3,391,000, equivalent to S/11,394,000 as of December 2017), which guarantee the fulfillment of obligations arising from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

18. Equity, net

(a) Capital stock -

As of December 31, 2018 and 2017, the capital stock of InRetail Real Estate Corp. amounts to approximately S/1,475,706,000, represented by 568,201,039 shares, issued at a nominal value of US$1 each.

(b) Unrealized results, net -

As of December 31, 2018 and 2017, the unrealized results were generated by the investments at fair value through other comprehensive income and derivate financial instruments – "Call spread" see note 6 and 12, respectively.

(c) Transactions with non-controlling interests -

In February 2016, the Company purchased 100 percent of the non-controlling interests for approximately US$2,732,000 (equivalent to approximately S/9,040,000); the highest amount paid for approximately S/2,621,000 was recorded in the caption "Retained earnings" in the consolidated statement of changes in equity.

19. Income from real estate service

(a) The composition of the balance is presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Rental income			
Income from fixed income	284,138	265,567	254,446
Income from variable income	52,170	46,251	41,337
Rent of space for publicity	13,655	12,556	11,960
Key money, note 14(c.1)	6,685	7,001	9,407
	356,648	331,375	317,150
Income from management services			
Common expenses (b)	68,258	66,824	62,191
Electricity and water (c)	50,243	48,055	49,662
Promotion and advertisement fund (d)	18,501	17,348	16,493
Parking	9,493	8,793	8,541
Management services	1,117	1,365	1,029
Others income	3,453	4,714	2,812
	151,065	147,099	140,728

(b) Corresponds to the income for common expenses that includes maintenance, security, administration and supervision of the Shopping Malls, which are billed to each tenant according to the terms established in the lease agreement.

(c) Corresponds to the income for energy and water that are assumed by the Company and its Subsidiaries and that are subsequently billed to each tenant of the Shopping Malls.

(d) Corresponds to the income from the promotional and advertising activities of the Shopping Malls, which are invoiced to each tenant of the Shopping Malls according to the terms established in the corresponding lease contract.

20. Operating costs

The composition of this caption is presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Cost related to income from management services			
Electricity and water	42,265	41,309	47,325
Maintenance and administration of parking lot	19,461	17,357	14,802
Advertising and marketing	17,445	18,246	18,430
Personnel expenses, note 22(b)	14,174	12,155	9,812
Cleaning	11,543	10,597	9,053
Safety services	8,643	7,805	6,743
Leases, professional fees and communications	2,818	371	1,635
Other costs	1,261	4,337	1,253
	117,610	112,177	109,053
Cost of rental income			
Landlord leases, see note 11.	28,563	27,490	16,324
Property Tax and duties	14,031	13,271	12,342
Property insurance costs	4,039	3,745	3,909
Other costs	968	187	1,426
	47,601	44,693	34,001

21. Selling and administrative expenses

	2018		
	Administrative expenses S/(000)	Selling expenses S/(000)	Total S/(000)
Personnel expenses, note 22(b)	17,979	6,271	24,250
Professional fees	6,130	450	6,580
Depreciation, note 10(a)	3,342	-	3,342
Amortization	349	-	349
Provision for doubtful accounts, net of recoveries, note 7(e)	-	1,998	1,998
Other expenses	3,477	658	4,135
	31,277	9,377	40,654

	2017		
	Administrative expenses S/(000)	Selling expenses S/(000)	Total S/(000)
Personnel expenses, note 22(b)	14,718	5,823	20,541
Professional fees	4,322	390	4,712
Depreciation, note 10(a)	3,460	-	3,460
Amortization	287	-	287
Provision for doubtful accounts, net of recoveries, note 7(e)	-	867	867
Other expenses	5,513	987	6,500
	28,300	8,067	36,367

	2016		
	Administrative expenses S/(000)	Selling expenses S/(000)	Total S/(000)
Personnel expenses, note 22(b)	9,268	5,560	14,828
Professional fees	8,228	869	9,097
Depreciation, note 10(a)	3,328	-	3,328
Amortization	244	-	244
Provision for doubtful accounts, net of recoveries, note 7(e)	-	(371)	(371)
Other expenses	5,287	196	5,483
	26,355	6,254	32,609

22. Personnel expenses

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

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Salaries	20,753	17,076	13,947
Regular bonuses	6,060	4,331	2,838
Workers' profit sharing	3,374	3,447	1,961
Social security	2,291	2,058	1,532
Severance indemnities	2,552	2,075	1,389
Vacations	2,167	1,755	733
Other personnel expenses	1,227	1,954	2,240
	38,424	32,696	24,640

(b) The distribution of personnel expenses is presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Operating costs, see note 20(a)	14,174	12,155	9,812
Administrative expenses, see note 21	17,979	14,718	9,268
Selling expenses, see note 21	6,271	5,823	5,560
	38,424	32,696	24,640

23. Other incomes (expenses), net

The composition of this caption is presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Others incomes			
Income for re-invoicing by store implementation, note 11(e)	9,724	-	-
Income from sale of investment property, note 11(b)	-	4,004	1,733
Others	3,883	2,147	1,503
	13,607	6,151	3,236
Others expenses			
Cost for re-invoicing by store implementation, note 11(e)	(8,458)	-	-
Cost of alienation of investment property, note 11 (b)	-	(960)	(2,770)
Others	(4)	(49)	(12)
	(8,462)	(1,009)	(2,782)
Total other incomes (expenses), net	5,145	5,142	454

24. Financial income and expenses

The composition of this caption is presented below:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Financial Income			
Interest on loans granted	22,271	1,017	638
Interests on deposits	525	3,280	933
Interests on bonds	207	1,203	2,879
Others	2,459	2,283	1,801
	25,462	7,783	6,251
Financial expenses			
Interest on bonds issued, Note 15(b)	92,023	74,160	76,674
Early settlement of bonds issued, Note 15(b.1)	24,148	-	-
Premium for early cancellation of Call Spread 2015, Note 12	17,109	-	-
Financial leasing and Others	14,713	8,450	10,815
Premium amortization per derivative financial instrument, Note 12	4,994	12,142	12,685
Loss per speculative financial instrument, Note 12	4,197	-	-
Expenditures for structuring debt, Note 15 (b)	7,957	13,110	12,673
Other financial expenses	7,509	6,779	6,933
	172,650	114,641	119,780

25. Tax situation

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

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In attention to Legislative Decree No. 1261, issued on December 10, 2016 and effective since January 1, 2017, the additional tax on dividend income generated is as follows:

- 6.8 percent for the profits generated from January 1, 2015 to December 31, 2016.
- For the profits generated since January 1, 2017, which will be distributed as from that date, the applicable rate will be 5 percent.
- For the profits generated since January 1, 2017, which will be distributed as from that date, the applicable rate will be 29.5 percent.

(b) Real Plaza is domiciled in Peru and is subject to the Peruvian tax regime. As of December 31, 2017 and 2016, the statutory Income Tax rate was 28 percent, on the taxable income. After deducting the workers profit sharing which is calculated at a rate of 5 percent on taxable income. In attention to Legislative Decree No. 1261, issued on December 10, 2016 and effective since January 1, 2017, the income tax rate applicable on taxable profit, after deducting employee participation will be from 2017 onwards, 29.5 percent.

(c) According to the text of the Law on Income Tax, as amended by Law 29663 and 29757, since year 2012, among the transactions subject to capital duty, are those obtained by the indirect sale of shares of Peruvian companies. For these purposes, an indirect transfer is set when two instances occur together:

(i) First, 10 percent or more of the shares of non-resident must be sold in any twelve month period (assumed effective from February 16, 2011); and,
(ii) Second, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months (of course in force since July 22 2011).

(d) In Peru, for purposes of determining income tax, transfer pricing transactions with related companies and companies resident in territories with low or no taxation, must be supported with documentation and information on the valuation methods used and the criteria considered in its determination. Based on the analysis of operations, Management and its legal advisors believe that, as a result of the application of the regulation in force, there will not emerge significant contingencies for Company and its Subsidiaries as of December 2018 and 2017.

(e) The Tax Authority has the power to review and, if applicable, correct the income tax calculated during the four years after the year of filing the tax return. Below are the years subject to review by the Tax Authority of the Subsidiaries of InRetail Real Estate Corp. domiciled in Peru:

	Income Tax	**IGV**
Real Plaza S.R.L.	From 2015 to 2018	From 2014 to 2018
Inmobiliaria Puerta del Sol	From 2015 to 2018	From 2014 to 2018
Inversiones Real Estate S.R.L.	From 2014 to 2018	From 2014 to 2018

Due to the possible interpretations that the Tax Authority may give to the legal regulations currently in force, it is not possible to determine, to date, whether the examinations performed will or will not result in liabilities for the Company and its Subsidiaries, therefore, any higher tax or surcharge that could result from eventual fiscal reviews would be applied to the results of the fiscal year in which it is determined.

In Management's opinion Company and its Subsidiaries and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of December 31, 2018 and 2017.

(f) According to the peruvian law, Patrimonio en fideicomiso D.S.N°093-2002-EF- InRetail Shopping Malls, Patrimonio en fideicomiso D.S.N°093-2002-EF- Interproperties Holding, Patrimonio en fideicomiso D.S.N°093-2002-EF- Interproperties Holding II and Patrimonio en fideicomiso D.S.N°093-2002-EF- Puerta del Sol are not considered as income taxpayers due to its status as Special Purpuse Entities. Such Entities attribute their 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. In consequence, as of December 31, 2018 and 2017 the income tax liability related to Special Purpose Entities consists of:

	2018 S/(000)	2017 S/(000)
Opening balance as of January 1	213,081	172,891
Tax related to SPE, recorded as income tax expense, note 16 (c)	46,503	53,707
Tax related to SPE, presented in other comprehensive income for		
Investments at fair value through other comprehensive income, Note 6	6,551	560
Derivative financial instrument – "Call Spread", Note 12	12,399	(14,077)
Balance as of December	278,534	213,081

(g) In July 2018, Law 30823 was published in which Congress delegated to the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued are the following:

(i) As of January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. Now the income tax is withheld because of the payment or accreditation of the compensation. In order for said cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the filing date of the annual tax return for the income tax (Legislative Decree No. 1369).

(ii) The rules that regulate the obligation of legal persons and / or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Law, and legal entities established in the country. The obligation covers non-domiciled legal entities and legal entities established abroad, as long as: a) they have a branch, agency or other permanent establishment in the country; b) the natural or juridical person who manages the autonomous patrimony or the investment funds from abroad, or the natural or juridical person who has the status of protector or administrator, is domiciled in the country; c) any of the parts of a consortium is domiciled in the country. This obligation will be fulfilled through the presentation to the Tax Authority of an informative Sworn Statement, which must contain the information of the final beneficiary and be presented, in accordance with the regulations and within the periods established by SUNAT.

(iii) The Tax Code was modified in order to provide greater guarantees to taxpayers in the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code), (Legislative Decree No. 1422).
As part of this modification, a new assumption of joint responsibility is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design, approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Directory, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of fiscal planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented as of the effective date of Legislative Decree No 1422 (September 14, 2018) and that continue to have effects, must be evaluated by the Board of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the management or other administrators of the company they would have approved the aforementioned acts, situations and economic relations.

It has also been established that the application of Rule XVI, as regards the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, facts or situations produced since July 19, 2012.

(iv) Modifications to the Income Tax Law were included, which are valid from January 1, 2019, to improve the tax treatment applicable to (Legislative Decree No. 1424):

- The income obtained from indirect sale of shares or participations representing capital of legal persons with headquarters in Peru. One of the most important changes is the inclusion of a new assumption for indirect sale, which is applied when the total value of shares of the legal person with headquarters in the country is equal or higher than 40,000 tax units at the moment of the indirect sale; see previous paragraph.

- The permanent establishment of sole proprietorships, companies and entities of any nature established abroad; new assumptions for permanent establishment were incorporated, for example, when services are provided in the country for one project or service, or for another related to it, for a period exceeding 183 calendar days per any twelve-month period.

- The system of credits against Income Tax for taxes paid abroad, including the indirect credit (corporate tax paid by foreign Subsidiaries) as applicable credit against the Income Tax of domiciled legal entities, in order to avoid double economic imposition.

- The deduction for interest expenses to determine the enterprise income tax. In 2019 and 2020, the debt limit which is set at three times the net equity as of December 31 of the fiscal year will be applicable in both loans with related parties and loans with third parties that are acquired from September 14, 2018. As of 2021, the deduction limit for financial expenses will be equivalent to 30 percent of the entity's EBITDA.

- Rules have been established for the accrual of income and expenses for tax purposes as of January 1, 2019 (Legislative Decree No. 1425). Until 2018 there was no normative definition of this concept, so in many cases accounting rules were used for its interpretation. In general terms, with the new criteria, for the purpose of the determination of Income Tax, it will now matter if the substantial events for the generation of the income or expense agreed by the parties, who are not subject to a suspensive condition, in which case the recognition will be given when it is fulfilled and the opportunity for collection or payment established will not be taken into account; and, if the determination of the consideration depends on a future event or event, the total or part of the corresponding income or expense will be deferred until that event or event occurs.

26. Transactions with related parties

(a) The main transactions with related parties recorded in the consolidated income statements for the years ended in December 31, 2018, 2017 and 2016, are the following:

	2018 S/(000)	2017 S/(000)	2016 S/(000)
Income			
Rental income	125,467	109,403	108,001
Income from management services	24,937	49,881	43,671
Reimbursements of expenses	45,181	1,898	1,970
Other	10,544	17,051	3,056
	206,129	178,233	156,698
Expenses			
Renting of premises and land	655	3,377	3,515
Reimbursements of expenses	2,161	882	1,498
Commissions	1,862	673	522
Others	4,302	16,250	2,531
	8,980	21,182	8,066

(b) As result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of December 31, 2018 and 2017:

	2018 S/(000)	2017 S/(000)
Trade and other receivables		
InRetail Perú Corp. (d)	409,517	-
Tiendas Peruanas Oriente S.A.C., see note 11(e)	9,298	269
Tiendas Peruanas S.A.	6,669	4,419
Homecenters Peruanos S.A.	3,920	1,591
Supermercados Peruanos S.A.	3,219	5,364
Intercorp Retail Inc.	2,010	-
InRetail Management S.R.L.	1,270	1,874
Bembos S.A.	1,491	1,817
Banco Internacional del Perú S.A.A.-Interbank	209	1,139
Cineplex S.A.	900	754
Intercorp Perú Ltd.	-	552
Interseguro Compañía de Seguros S.A.	-	20,554
Other related companies	9,668	14,008
	448,171	52,341
By term:		
Current	37,431	52,341
Non Current	410,740	-
	448,171	52,341
Trade and other payable		
Interseguro Compañía de Seguros S.A.	1,209	22,424
Supermercados Peruanos S.A.	255	513
Other	232	418
	1,696	23,355
Financial obligations		
Banco Internacional del Perú S.A.A.-Interbank, note 15	171	324

The policy of the Company and its Subsidiaries is to carry out transactions with related parties in terms and conditions similar to those made with third parties and under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for the determination of these, are the usual ones in the industry and are settled in accordance with the current tax regulations.

The outstanding balances do not accrue interest and no guarantees have been received or granted from any related party for the balances receivable and payable. For the years ended December 31, 2018 and 2017, the Company and its Subsidiaries have not recorded any provision for impairment related to accounts receivable from related parties. This evaluation is carried out in each fiscal year through the analysis of the financial situation of the related party and the market in which it operates.

(c) As of December 31, 2018 and 2017, the Company and its Subsidiaries maintained the following balances with related parties as part of the line of cash and cash equivalents and financial investments at fair value through profit or loss and financial investments at fair value through other comprehensive income:

	2018 S/(000)	2017 S/(000)
Cash and cash equivalents, Note 4		
Banco Internacional del Perú S.A.A-Interbank	22,280	19,733
Financial investments at fair value through profit or loss, Note 5		
Mutual Funds managed by Interfondos S.A.F	-	21,079
Financial investment at fair value through other comprehensive income, Note 6		
Shares- InRetail Perú Corp.	130,895	34,804
Bonds – Intercorp Ltd	-	21,599

(d) In April 2018, Inretail Shopping Malls, a subsidiary of the Company, granted a loan to Inretail Perú Corp for a principal amount of S/402,500,000 that accrues an effective annual interest rate of 6.90 percent and has a maturity of 10 years. As of December 2018, the loan accrued an amount of S/13,881,000 as interest, which is presented in the caption "Financial income" of the consolidated statement of income of which a sum of S/7,017,000 is pending collection.

(e) The compensation to the key personnel of the Management, of the Group is detailed below:

	2018 S/(000)	2017 S/(000)
Short term employee benefits	3,067	2,921
Insurance and medical benefits	206	205
Other	-	89
Total	3,273	3,215

27. Segments

The Company and its Subsidiaries 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. The Group separated in two groups their incomes and costs in Lima and Provinces.

The following table presents income and certain asset information regarding InRetail Real Estate's reportable segments (in millions of Soles) for the years ended 31 December 31, 2018, 2017 and 2016:

2018	Rental income S/(000)	Income from management services S/(000)	Fair value adjustment to investment properties S/(000)	Investments properties S/(000)
Lima	166,023	72,099	11,729	1,813,852
Provinces	190,625	78,966	6,408	1,857,463
Total	356,648	151,065	18,137	3,671,315

2017	Rental income S/(000)	Income from management services S/(000)	Fair value adjustment to investment properties S/(000)	Investments properties S/(000)
Lima	160,781	70,025	57,785	1,595,730
Provinces	170,594	77,074	(46,361)	1,606,670
Total	331,375	147,099	11,424	3,202,400

2016	Rental income S/(000)	Income from management services S/(000)	Fair value adjustment to investment properties S/(000)	Investments properties S/(000)
Lima	152,347	66,014	17,452	1,504,728
Provinces	164,803	74,714	(6,396)	1,600,733
Total	317,150	140,728	11,056	3,105,461

28. Management of financial risks

The activities of the Company and its Subsidiaries expose it to a variety of financial risks, which include the effects of changes in foreign currency exchange rates, interest rates, credit and liquidity. The risk management program of the Company and its Subsidiaries seeks to minimize the potential adverse effects on its financial performance.

The Management of the Company and its Subsidiaries is aware of the existing conditions in the market and, based on their knowledge and experience, has defined the general approach of risk management and policies and strategies, currently in force.

The main risks that the Company faces due to the nature of its operations are: credit, market and liquidity risk:

(a) Credit risk -

Credit risk is the risk that a counterparty does not comply with its obligations stipulated in a financial instrument or contract, causing a loss. The Company and its Subsidiaries are exposed to credit risk for their operating activities. This risk is managed by the Management in accordance with the principles provided by the Board of Directors to minimize the concentration of risk and, consequently, mitigate financial losses arising from potential breaches of the counterparty. The maximum exposure to credit risk of the components of the consolidated financial statements as of December 2018 and 2017, comes from the items "Cash and cash equivalents", "Trade accounts receivable", "Accounts receivable with related parties" and "Other accounts receivable".

Below is the credit risk analysis:

(i) Trade receivables-

The Company and its Subsidiaries assess the concentration of risk with respect to trade accounts receivable. In general, there are no significant concentrations of commercial accounts receivable with any particular counterparty. The Company and its Subsidiaries carry out an evaluation of the collectibility risk of commercial accounts receivable to determine the respective provision.

(ii) Accounts receivable from related parties -

Due to the nature of these accounts, the credit risk is reduced, since they are related companies whose debts are collected and / or normally compensated in the short term.

(iii) Bank deposits -

The credit risk of the balance in banks is managed by the Management in accordance with the policies of the Company and its Subsidiaries. The maximum exposure to credit risk related to bank deposits as of December 31, 2018 and 2017, comes from the line "Cash and cash equivalents"; Said balances are held in first level Financial Entities, including a related entity.

(b) **Market risk** -

Market risk is the possibility of loss due to variations in financial market conditions. The main variations to which the InRetail Real Estate group is exposed are the value of the exchange rate, interest rates and prices. These variations may affect the value of the assets and financial liabilities of the InRetail Real Estate Group.

(i) Interest rate risk -

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates.
The policy of the Company and its Subsidiaries is to maintain financial instruments that bear fixed interest rates, so that the operating cash flows of the Company and its Subsidiaries are substantially independent of changes in market interest rates. In this sense, In Management's opinion, the Company and its Subsidiaries do not have a significant exposure to interest rate risks.

(ii) Exchange risk -

Exchange rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in exchange rates. The exposure of the Company and its Subsidiaries to exchange rates is mainly related to the operating activities of the Company and its Subsidiaries, related to rental income in foreign currency and financial obligations.

Transactions in foreign currency are carried out at the free market exchange rates published by the Superintendency of Banking, Insurance and AFP. As of December 31, 2018, the weighted average free market exchange rate for transactions in US dollars was S/3,369 per US $ 1 for the purchase and S/3,379 for US $ 1 for the sale (S/3,238 for US $ 1 for the purchase). purchase and S/3,245 for US $ 1 for sale as of December 31, 2017).

As of December 31, 2018 and 2017, the assets and liabilities in foreign currency were the following (expressed in thousands of US dollars):

	2018 US$(000)	2017 US$(000)
Assets		
Cash and cash equivalents	1,381	2,595
Investments at fair value through profit or loss	38,738	17,381
Accounts receivable from related parties	2,259	2,722
Other trade receivables	770	403
Trade receivables, net	306	402
Investments at fair value through profit or loss	-	18,985
	43,454	42,488
Liabilities		
Financial obligations	348,897	295,916
Other liabilities	7,199	11,303
Trade payables	3,221	1,498
Accounts payable from related parties	228	362
	359,545	309,079
"Call Spread" – Short position	350,000	200,000
Net assets (liability) position	33,909	(66,591)

As of December 31, 2018 and 2017, InRetail Real Estate has entered into a "Call Spread" contract for a reference value of US$350,000,000 and US$200,000,000 in order to reduce its exposure to the exchange rate risk associated with part of the financial obligations ; said derivative financial instrument have been considered as hedging instruments; See more detail on note 12.

The Company and its Subsidiaries manages the foreign currency exchange risk by monitoring and controlling the values of its position in foreign currency. InRetail Real Estate measures its performance in soles so that, if the exchange position in foreign currency is positive, any depreciation of the US dollar would negatively affect the financial condition of the Company and its Subsidiaries. The current position in foreign currency includes the assets and liabilities that are indicated at the exchange rate. Any devaluation / revaluation of the foreign currency would affect the income statement.

During the year 2018, the Company and its Subsidiaries has incurred a net loss for exchange difference of approximately S/2,775,000 (a net gain of approximately S/7,997,000 as of December 31, 2017), which is presented in the caption "Exchange difference, net " of the consolidated statement of income.

The following table presents the sensitivity analysis of US Dollars, the currency at which InRetail Real Estate has a significant exposure as of December 31, 2018 and 2017, in its monetary assets and liabilities and its estimated cash flows. The analysis determines the effect of a reasonably possible change of the US dollar exchange rate, considering other variables to be constant in the consolidated statement of income. Any negative amount shows a potential net decrease in the consolidated statement of income, while a positive amount reflects a net potential increase

		Gain/(loss) before taxes	
Sensitivity analysis	**Change in exchange rates** %	**2018** S/(000)	**2017** S/(000)
Devaluation -			
US Dollars	5	5,532	1,227
US Dollars	10	11,064	2,453
Revaluation -			
US Dollars	5	(5,532)	(1,227)
US Dollars	10	(11,064)	(2,453)

(iii) Price risk -

Financial investments at fair value through profit or loss (mutual funds) and financial investments at fair value through changes in other comprehensive income (shares) are subject to changes in their fair value due to changes in their market value. Management mitigates this risk by investing in financial instruments with a conservative risk profile. A calculation of sensitivity in market prices and the effect on the unrealized gain or expected loss in the consolidated statement of income, before income tax, as of December 31, 2018 and 2017 is presented below:

Sensitivity analysis	**Change in Exchange rates** %	**2018** S/(000)	**2017** S/(000)
Shares	+/-15	196	85
Shares	+/-10	131	56
Mutual funds	+/-15	17	303
Mutual funds	+/-10	12	202
Mutual funds	+/-30	35	606

(c) Liquidity risk -

The liquidity risk is the risk that the Company and its Subsidiaries cannot meet their payment obligations related to financial liabilities at maturity. The consequence would be the failure to pay their obligations to third parties.

The management of liquidity risk involves maintaining sufficient cash and availability of financing, through an adequate amount of committed credit sources and the ability to settle transactions, mainly, of indebtedness. In this regard, and although the Company and its Subsidiaries maintains short and long-term financial obligations for significant amounts as of December 31, 2018 and 2017, the Management of the Company and its Subsidiaries considers that this situation does not constitute a limitation to its operations, due to the to the support and economic and managerial support that the Intercorp Perú Ltd. Group can provide and to monitor the liquidity risks of the Company and its Subsidiaries that the Management does, who directs its efforts to maintain sources of financing through the availability of credit lines.

The following table shows the maturity of the obligations contracted by InRetail Real Estate at the date of the consolidated statements of financial position and the amounts to disburse at their maturities, based on non-discounted payments that will be made:

	Less than 3 months S/(000)	More than 3 months and less than 1 year S/(000)	More than 1 year and less than 5 years S/(000)	More than 5 years and less than 11 years S/(000)	Total S/(000)
As of December 31, 2018					
Financial obligations (*)					
Principal amortization, note 15	9,067	31,760	171,909	1,582,304	1,795,040
Cash flow for interest payment	25,530	84,024	526,526	374,182	1,010,262
Trade payables, note 13	42,693	3,351	8,910	-	54,954
Accounts payable to related parties, note 26(b)	1,696	-	-	-	1,696
Other liabilities, note 14	52,276	-	-	-	52,276
	131,262	119,135	707,345	1,956,486	2,914,228
As of December 31, 2017					
Financial obligations (*)					
Principal amortization, note 15	15,162	30,047	1,010,994	136,606	1,192,809
Cash flow for interest payment	24,912	69,998	253,048	92,384	440,342
Trade payables, note 13	32,764	7,612	29	-	40,405
Accounts payable to related parties, note 26(b)	623	22,732	-	-	23,355
Other liabilities, note 14	56,408	-	-	-	56,408
	129,869	130,389	1,264,071	228,990	1,753,319

(*) It does not include the cash balance received from the tenants for the right of key and rents paid in advance, see note 14(c).

(d) Changes in liabilities related to financing activities -

Below are the changes in liabilities related to financing activities.

	Balance at beginning of year S/(000)	Others (*) S/(000)	Own emission bonds S/(000)	Accrued interests S/(000)	New leasing S/(000)	Cash flows S/(000)	Foreign currency movement S/(000)	Estructuring commission accrual S/(000)	Balance at end of year S/(000)
Balance as of December 31, 2018 -									
Financial obligations	1,192,809	49,811	443,063	-	111,798	(35,040)	24,739	7,860	1,795,040
Interests for financial obligations	36,198	-	-	102,182	-	(111,289)	-	-	27,091
Liabilities to financing activities	1,229,007	49,811	443,063	102,182	111,798	(146,329)	24,739	7,860	1,822,131
Balance as of December 31, 2017 -									
Financial obligations	1,256,637	-	-	-	929	(43,210)	(22,536)	989	1,192,809
Interests for financial obligations	37,651	-	-	85,734	-	(87,187)	-	-	36,198
Liabilities to financing activities	1,294,288	-	-	85,734	929	(130,397)	(22,536)	989	1,229,007
As of December 2016 -									
Financial obligations	1,247,436	-	-	-	1,793	(44,826)	52,234	-	1,256,637
Interests for financial obligations	36,750	-	-	91,469	-	(90,568)	-	-	37,651
Liabilities to financing activities	1,284,186	-	-	91,469	1,793	(135,394)	52,234	-	1,294,288

(*) Corresponds to the effect of the cancellation and acquisition of a "Call spread", note 12.

29. Property risk:

Property risk is the possibility of loss as a result of variations or volatility in the market prices of investment properties.

The InRetail Real Estate has identified the following risks associated to its investment properties:

- The cost of projects being executed or that will be executed can increase if the planning process is delayed. InRetail Real Estate is provided with the service of advisors experienced in the requirements for project planning and execution.

- The principal tenant can be insolvent, thereby causing a significant loss in rental income and the decrease of the related property value. To reduce this risk, InRetail Real Estate reviews the financial situation of all possible tenants, determining the adequate level of security and requesting security deposits or any other type of guarantee, if necessary.

- The fair value of investment properties can be affected by the cash flows generated by occupants and/or tenants, significant variations in the assumptions used for fair value estimation (see note 11) or fluctuations in the real estate market due to external factors.

30 Capital management risk -

The Company and its Subsidiaries actively manage a capital base to cover the risks inherent in their activities. The capital adequacy of the Company and its Subsidiaries are monitored using, among other measures, the ratios established by the Management.

The objectives of the Company and its Subsidiaries when managing its capital is a broader concept than the "Consolidated Net Worth" that is shown in the consolidated statement of financial position, these objectives are: (i) Safeguard the capacity of the Company and its Subsidiaries to continue operating in a manner that continues to provide returns to shareholders and benefits to the other participants; and (ii) maintain a strong capital base to support the development and growth of its activities.

As of December 31, 2018 and 2017, there have been no changes in the activities and policies of capital management in the Company and its Subsidiaries.

31. Fair value of financial instruments and fair value hierarchy –

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in a current transaction, under the assumption that the Entity is a going concern.

When a financial instrument is traded in a liquid and active market, its market price stipulated in a real transaction provides the best evidence of its fair value. When the price stipulated in the market is not available or it cannot be an indication of the fair value of the financial instrument, the market value of another instrument, substantially similar, the analysis of discounted cash flows can be used to determine said fair value. Other applicable techniques; which are affected significantly by the assumptions used. Although the Management of the Company and its Subsidiaries have used their best judgment in estimating the fair values of their financial instruments, any technique to make such an estimate entails a certain level of inherent fragility. As a result, the fair value cannot be indicative of the net realizable or liquidation value of the financial instruments.

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

(a) Financial instruments whose fair value is similar to the book value -
For financial assets and liabilities that are liquid or have short-term maturities (less than three months), such as cash and cash equivalents, trade accounts receivable, trade accounts payable and other current liabilities, the carrying amount is considered to be It is similar to fair value.

(b) Fixed-rate financial instruments -
The fair value of financial assets and liabilities that are at fixed rates and at amortized cost is determined by comparing the market interest rates at the time of initial recognition with the current market rates related to similar financial instruments. The estimated fair value of the interest-bearing financial obligations is determined by the discounted cash flows using the rates currently available for debts with conditions, credit risk and similar maturities.

(c) Financial investments at fair value with changes in results and changes in other comprehensive income and financial derivative instruments -
The fair value of the financial investments at fair value that are traded in active markets at the date of the consolidated statements of financial position is based on their quoted price, without deducting the transaction costs. For financial investments that are not traded in active markets and for derivative financial instruments, fair value is determined using appropriate valuation techniques. Valuation techniques include net present value techniques and comparison with similar instruments for which there are market prices.

On the basis of the aforementioned criteria's, set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instrument and investment properties as of December 31, 2018 and 2017:

	2018		2017	
	Book value S/(000)	Fair value S/(000)	Book value S/(000)	Fair value S/(000)
Assets				
Cash and cash equivalents	26,981	26,981	54,422	54,422
Financial investments at fair value through profit or loss	11,664	11,664	202,047	202,047
Financial investments at fair value through Others profit or loss	130,895	130,895	56,403	56,403
Trade receivables, net	26,290	26,290	25,971	25,971
Accounts receivable to related parties	37,431	37,431	52,341	52,341
Other receivables, net	24,934	24,934	24,469	24,469
Derivative financial instrument – "Call spread"	77,257	77,257	30,279	30,279
Liabilitis				
Trade payables	54,954	54,954	40,405	40,405
Accounts payable to related parties	1,696	1,696	23,355	23,355
Others payables (current and non-current)	71,538	70,011	80,259	79,419
Financial liabilities	1,795,040	1,880,041	1,192,809	1,221,178

The Company and its Subsidiaries have not made transfers from Level 3 to Level 1 or Level 2 of the fair value accounting hierarchy during the years 2018 and 2017. The financial instruments and their level of hierarchy for the determination of fair value, for accounting purpose or for disclosure purposes in the notes of the consolidated financial statements are as follows:

- Financial investments at fair value through profit or loss, Level 1.
- Derivative financial instruments, Level 2.
- Trade receivables (non-current), Level 2.
- Financial liabilities, Trade payables (non-current) and Others non-current liabilities, Level 2.

The Company and its Subsidiaries have determined the fair value of the investment properties through level 3 of the fair value hierarchy, see note 11 (g).

A description of the accounting hierarchies of fair value is presented in note 3.3 (s).

32. Subsequent events

From December 31, 2018 until the date of this report, no events have occurred that affect the consolidated financial statements.

33. Explanation added for English translation

The accompanying consolidated financial statements were originally issued in Spanish and are presented on the basis of International Financial Reporting Standards, as described in note 4. Certain accounting practices applied by the Company that conform to those accounting principles may not conform to generally accepted accounting principles in other countries. In the event of a discrepancy, the Spanish language version prevails.

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