

**InRetail Real Estate Corp. And Subsidiaries**

Interim consolidated financial statements as of September 30, 2016 (unaudited) and December 31, 2015 (audited) and for the nine-month periods ended as of September 30, 2016 and 2015.

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Interim consolidated financial statements as of September 30, 2016 and December 31, 2015 and for the nine-month periods ended September 30, 2016 and 2015.

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## InRetail Real Estate Corp. and Subsidiaries

### Interim consolidated statements of financial position

As of September 30, 2016 (unaudited) and December 31, 2015 (audited)

	<u>Note</u>	<u>2016</u>	<u>2015</u>		<u>Note</u>	<u>2016</u>	<u>2015</u>
		S/(000)	S/(000)			S/(000)	S/(000)
<b>Assets</b>				<b>Liabilities and equity</b>			
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and cash equivalents	4	48,765	46,044	Trade payables	14	21,527	30,772
Available for-sale-investments	5	87,209	47,222	Other liabilities	15	49,399	57,320
Investment at fair value through profit or loss	6	31,958	34,896	Accounts payable to related parties	25	3,753	4,151
Trade receivables, net	7	28,071	34,213	Current portion financial obligations	16	44,352	43,342
Other receivables	8	10,181	2,274	<b>Total current liabilities</b>		<u>119,031</u>	<u>135,585</u>
Accounts receivables from related parties	25	37,102	42,290	Other long-term liabilities	15	33,866	29,430
Prepaid expenses	9	6,726	456	Income tax related to especial pourpose entity	24(e)	151,796	113,342
Recoverable taxes	10	28,808	38,868	Long-term financial obligations	16	1,229,078	1,204,206
<b>Total current assets</b>		<u>278,820</u>	<u>246,263</u>	Deferred income tax liabilities, net	17	19,182	17,717
				<b>Total non-current liabilities</b>		<u>1,433,922</u>	<u>1,364,695</u>
<b>Non-current assets</b>				<b>Total liabilities</b>		<u>1,552,953</u>	<u>1,500,280</u>
Deferred income tax liability	17	798	798	<b>Equity</b>			
Recoverable taxes	10	58,793	77,609	Capital stock	19	1,475,706	1,475,706
Facilities, furniture and equipment, net	11	9,334	11,041	Unrealized results on financial instruments		(17,839)	(32,171)
Investment properties	12	3,039,585	2,925,501	Retained earnings		464,901	375,467
Investment in associates		24,271	-	<b>Equity attributable to owners of the parent</b>		<u>1,922,768</u>	<u>1,819,002</u>
Intangible assets		2,307	1,629	Non-controlling interests		-	6,419
Derivative financial instrument	13	61,410	62,498	<b>Total equity</b>		<u>1,922,768</u>	<u>1,825,421</u>
Other assets		403	362	<b>Total liabilities and equity</b>		<u>3,475,721</u>	<u>3,325,701</u>
<b>Total non-current assets</b>		<u>3,196,901</u>	<u>3,079,438</u>				
<b>Total assets</b>		<u>3,475,721</u>	<u>3,325,701</u>				

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

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of income and other comprehensive income (unaudited)

For the nine-month periods ended as of September 30, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
Rental income	20	230,052	213,395
Cost of rental income	21	<u>(23,570)</u>	<u>(18,000)</u>
<b>Net rental income</b>		<u>206,482</u>	<u>195,395</u>
Income from management services	20	103,089	103,881
Cost related to income from management services	21	<u>(78,345)</u>	<u>(79,013)</u>
<b>Net management service</b>		<u>24,744</u>	<u>24,868</u>
<b>Gross profit</b>		<u>231,226</u>	<u>220,263</u>
Fair value adjustment for investment properties	12(b)	8,501	18,275
Administrative expenses	22	(18,515)	(6,192)
Selling expenses	22	(4,836)	(18,505)
Other operating income (expenses)		436	(1,506)
<b>Operating profit</b>		<u>216,812</u>	<u>212,335</u>
Financial income	23	3,795	3,559
Financial expenses	23	(89,493)	(80,129)
Net exchange difference	26 (a)(ii)	731	(64,541)
<b>Profit before income tax</b>		<u>131,845</u>	<u>71,224</u>
Income tax	17(a)	(39,790)	(20,286)
<b>Net profit</b>		<u>92,055</u>	<u>50,938</u>
<b>Attributable to:</b>			
InRetail Real Estate Shareholders		92,055	50,578
Non-controlling interests		-	360
		<u>92,055</u>	<u>50,938</u>
<b>Earnings per share:</b>	19(b)		
Basic and diluted profit for the period attributable to ordinary equity holders of the parent		<u>0.1620</u>	<u>0.0896</u>

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

**InRetail Real Estate Corp. and Subsidiaries**

Interim consolidated statements of other comprehensive income (unaudited)

For the nine-month periods ended as of September 30, 2016 and 2015

	Note	2016 S/(000)	2015 S/(000)
<b>Profit for the period</b>		92,055	50,938
<b>Other comprehensive income</b>			
Unrealized gain on available-for-sale investments		9,289	(1,221)
Transfer of the realized gain on available-for-sale investments		-	(330)
Income tax effect		(2,786)	317
		<u>6,503</u>	<u>(1,234)</u>
Gain on hedging derivative financial instrument		7,503	1,107
Income tax effect		326	(89)
		<u>7,829</u>	<u>1,018</u>
<b>Other comprehensive income for the period, net of income tax effects</b>		<u>14,332</u>	<u>(216)</u>
<b>Total comprehensive income for the period</b>		<u>106,387</u>	<u>50,722</u>
<b>Attributable to:</b>			
InRetail Real Estate Shareholders		106,387	50,362
Non-controlling interests		-	360
		<u>106,387</u>	<u>50,722</u>

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

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of changes in equity (unaudited)

For the nine-month periods ended as of September 30, 2016 and 2015

	Attributable to owners of InRetail Real Estate Corp.				Non-controlling interest	Total equity
	Capital stock	Unrealized results on financial instruments	Retained earnings	Total		
	S/(000)	S/(000)	S/(000)	S/(000)		
<b>Balance as of January 1, 2015</b>	1,475,706	330	266,410	1,742,446	6,043	1,748,489
Net profit	-	-	50,578	50,578	360	50,938
Other comprehensive income	-	(216)	-	(216)	-	(216)
<b>Total comprehensive income</b>	-	(216)	50,578	50,362	360	50,722
Dividends	-	-	-	-	(207)	(207)
<b>Balance as of September 30, 2015</b>	1,475,706	114	316,988	1,792,808	6,196	1,799,004
<b>Balance as of January 1, 2016</b>	1,475,706	(32,171)	375,467	1,819,002	6,419	1,825,421
Profit for the period	-	-	92,055	92,055	-	92,055
Other comprehensive income	-	14,332	-	14,332	-	14,332
	-	14,332	92,055	106,387	-	106,387
Purchase of share non-controlling interest	-	-	(2,621)	(2,621)	(6,419)	(9,040)
<b>Balance as of September 30, 2016</b>	1,475,706	(17,839)	464,901	1,922,768	-	1,922,768

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

## InRetail Real Estate Corp. and Subsidiaries

Interim consolidated statements of cash flows (unaudited)

For the nine-month periods ended as of September 30, 2016 and 2015

	2016	2015
	S/(000)	S/(000)
<b>Operating activities</b>		
Revenue	336,352	219,763
Payments of goods and services to suppliers	(76,838)	(22,121)
Payments of salaries and social benefits to employees	(19,649)	(25,465)
Taxes paid	(8,496)	(8,885)
Recovery of taxes	18,714	41,154
Other payments	1,454	(7,188)
<b>Net cash flows from operating activities</b>	<b>251,537</b>	<b>197,258</b>
<b>Investing activities</b>		
Collection of loans granted	60,656	-
Purchase of investments at fair value through profit or loss	(15,498)	(2,977)
Sales of investments at fair value through profit or loss	18,436	-
Purchase of certificates of participation in associated companies	(24,271)	(13,800)
Purchase of available for sale investments	(30,773)	(36,062)
Loan collected (granted to) from related parties	(60,656)	37,315
Purchase of property, furniture and equipment, net of acquisitions through leasing contracts	(717)	(3,024)
Purchase and development of intangible assets	(858)	(181)
Purchase of investment properties, net of acquisitions through leasing contracts	(108,354)	(99,170)
Purchase of share non-controlling interest	(9,039)	-
Sales of shares	-	3,159
Sales of investment properties	2,751	-
Value Added tax payment related to investment properties	(12,114)	(8,199)
<b>Net cash flows used in investing activities</b>	<b>(180,437)</b>	<b>(122,939)</b>
<b>Financing activities</b>		
Proceeds from interest-bearing loans and borrowings	-	16,764
Payment of interest-bearing loans and borrowings	(35,618)	(7,572)
Structuring costs	-	(353)
Sale of third-party bonds	55,000	-
Interests paid	(87,761)	(81,044)
Repurchase of own bonds	-	(95,926)
Dividends paid	-	(207)
<b>Net cash flows used in financing activities</b>	<b>(68,379)</b>	<b>(168,338)</b>
Net (decrease) increase of cash and short-term deposits	2,721	(94,019)
<b>Cash and short-term deposits at the beginning of the period</b>	<b>46,044</b>	<b>110,769</b>
<b>Cash and short-term deposits at the end of the period</b>	<b>48,765</b>	<b>16,750</b>

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

## **InRetail Real Estate Corp. and Subsidiaries**

### **Notes to the interim consolidated financial statements (unaudited)**

Interim unaudited consolidated financial statements as of September 30, 2016 and December 31, 2015 and for the nine-month periods ended as of September 30, 2016 and 2015.

#### **1. Business activity**

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

As of September 30, 2016 and December 31, 2015 Intercorp Perú holds directly and indirectly 70.38 percent of the capital stock of InRetail Perú Corp., which in turn holds 100 percent of the capital stock of the Company.

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

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

In September 2015, the Company sold its 100 percent stake in InRetail Management S.R.L. to InRetail Perú Corp., a related company.

In March 2016, the Company, through its subsidiary Interproperties Holding II, acquired the minority interest of Inmobiliaria Puerta del Sol.

The consolidated financial statements as of September 30, 2016, were approved by the Board of Directors on November 11, 2016.

#### **2. Subsidiaries activities**

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

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



## Notes to the interim consolidated financial statements (continued)

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

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

Additionally, Interproperties Holding II owns 100 percent (95 percent as of December 31, 2015) of participation in the assets of Patrimonio Fideicometido – D.S. N° 093-2002-EF-Interproperties Puerta del Sol which is a special purpose entity formed to own and handle Real Plaza Cusco “San Antonio” Shopping Mall.

- (c) Real Plaza S.R.L. (hereinafter “Real Plaza”)  
An entity focused on operating the shopping malls (20 as of September 30, 2016 and December 31, 2015) and maintaining and developing relationships with the tenants. Real Plaza operates under the name of “Real Plaza Shopping Mall”.

As of September 30, 2016, Real Plaza manages shopping malls in Chiclayo, Piura, Chimbote, Trujillo, Huancayo, Arequipa, Juliaca, Huánuco, Cusco, Cajamarca, Pucallpa and Lima.

### 3. Summary of significant accounting policies

#### 3.1 Basis of preparation and presentation

The interim consolidated financial statements of InRetail Real Estate have been prepared in accordance with the International Accounting Standard 34 “Interim financial reporting”. Also, the accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the InRetail Real Estate’s annual consolidated financial statements for the year ended December 31, 2015 which were audited. Therefore, these interim consolidated financial statements should be read in conjunction with such audited consolidated financial statements.

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

The interim consolidated financial statements do not include all information and disclosures required for annual consolidated financial statements and should be read together with consolidated financial statements as of December 31, 2015.

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

## Notes to the interim consolidated financial statements (continued)

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

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

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

### **3.2 New standards and interpretations adopted by InRetail Real Estate-**

Several standards and amendments have come into effect from January 1, 2016; however, in the opinion of InRetail Real Estate's Management, they have no impact on the accompanying unaudited consolidated financial statements as of September 30, 2016.

#### **IFRS 9 early implementation**

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

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

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

### **3.3 Significant estimations and assumptions**

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

Notes to the interim consolidated financial statements (continued)

**4. Cash and cash equivalent**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Cash	34	34
Current accounts (b)	43,442	24,411
Time deposits (c)	5,270	12,579
Management and security trust current accounts (e)	19	7,927
Restricted funds	-	1,093
<b>Total</b>	<b>48,765</b>	<b>46,044</b>

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

(c) As of September 30, 2016, time deposits are unrestricted, maintained in Soles in local financial institutions, have maturities of up to one month since its inception and bear annual interests of 4.00 percent. (between 0.20 and 4.00 percent as of December 31, 2015 for US Dollars and Soles, respectively).

(d) As of September 30, 2016 and December 31, 2015, corresponds to the bank accounts, which serve as means of payment of the guaranteed obligations with regard to the leasing granted by Banco de Crédito del Perú in favor of Interproperties Holding II, see note 16 (d), in compliance with the contract of management and security trust.

**5. Available for-sale investments**

As of September 30, 2016, corresponds to bonds issued by Intercorp Ltd., of US\$15,549,000 equivalent to S/52,912,000 (US\$13,856,000 equivalent to S/47,222,000 as of December 31, 2015), which mature in 2025, and accrue effective annual interests at a rate of 5.785 percent. The valuation results, amounted to S/3,147,000 as of September 30, 2016 (S/904,000 as of September 30, 2015) and are presented, net of deferred income tax, in the "Unrealized results" caption of the consolidated statements of changes in equity.

The fair value is determined by price quotations published in an active market.

Additionally, as of September 30, 2016, the Company has other investments available for sale for an amount of US\$10,078,000 equivalent to S/34,297,000.

Notes to the interim consolidated financial statements (continued)

**6. Investment at fair value through profit or loss**

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

<b>Entity</b>	<b>As of September 30, 2016 S/(000)</b>	<b>As of December 31, 2015 S/(000)</b>
Mutual funds managed by Interfondo SAF. S.A.	31,958	34,896
<b>Total</b>	<u>31,958</u>	<u>34,896</u>

As of September 30, 2016 and December 31, 2015, these mutual funds were comprised by a portfolio of financial instruments issued by renowned financial institutions on the local market. The results from this valuation are presented in the "Financial Income" caption of the consolidated statement of income.

**7. Trade receivables**

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

	<b>As of September 30, 2016 S/(000)</b>	<b>As of December 31, 2015 S/(000)</b>
Rents receivable (b )	19,216	26,223
Unbilled services (c )	12,113	13,482
Documents receivable	<u>2,178</u>	<u>-</u>
<b>Total</b>	33,507	39,705
Allowance for doubtful accounts	<u>(5,436)</u>	<u>(5,492)</u>
	<u>28,071</u>	<u>34,213</u>

(b) As of September 30, 2016 and December 31, 2015, trade accounts receivable are denominated in Soles and US Dollars, have current maturities and do not accrue interests.

(c) As of September 30, 2016 and December 31, 2015, mainly corresponds to unbilled lease services for variable and fixed rents, which are billed during the following month.

Notes to the interim consolidated financial statements (continued)

(d) As of September 30, 2016 and December 31, 2015 the analysis of trade receivables is as follows:

	<b>Balance as of September 30, 2016</b>		
	<b>Non-impaired</b>	<b>Impaired</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
<b>Unbilled services</b>	12,113	-	12,113
<b>Past-due</b>			
From 1 to 90 days	12,262	-	12,262
From 91 to 120 days	769	355	1,124
From 121 to 180 days	586	393	979
From 181 to 270 days	457	725	1,182
More than 271 days	1,884	3,962	5,846
	<u>28,071</u>	<u>5,436</u>	<u>33,507</u>

	<b>Balance as of December 31, 2015</b>		
	<b>Non-impaired</b>	<b>Impaired</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
<b>Unbilled services</b>	13,482	-	13,482
<b>Past-due</b>			
From 1 to 90 days	13,604	-	13,604
From 91 to 120 days	2,113	143	2,256
From 121 to 180 days	1,993	346	2,339
From 181 to 270 days	825	413	1,238
More than 271 days	2,196	4,590	6,786
	<u>34,213</u>	<u>5,492</u>	<u>39,705</u>

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

(e) The movement of the provision for impairment as of September 30, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
<b>Balance at the beginning of the year</b>	5,492	3,863
Provision recognized as period expense, note 22(b)	978	1,361
Write offs and recovery's, note 22(b)	(1,087)	-
Exchange difference	53	11
<b>Balance at the end of the period</b>	<u>5,436</u>	<u>5,235</u>
<b>Balance as of December 31, 2015</b>		<u>5,492</u>

In the opinion of InRetail Real Estate Management, the provision for impairment appropriately covers the credit risk as of September 30, 2016 and December 31, 2015.

Notes to the interim consolidated financial statements (continued)

**8. Other receivables**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Outstanding advances (b)	6,366	1,742
Others	3,815	532
	<hr/>	<hr/>
<b>Total</b>	<b>10,181</b>	<b>2,274</b>
	<hr/>	<hr/>

(b) As of September 30, 2016 and December 31, 2015, corresponds to advances realized to suppliers related to the Company activities, related to the projects in the investments properties.

(c) In the opinion of InRetail Real Estate's Management, it is not necessary to make a provision for impairment as of September 30, 2016 and December 31, 2015, as no credit risk has been identified.

**9. Prepaid expenses**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Insurances paid in advance (b)	4,048	240
Municipal taxes prepaid (c)	2,373	-
Others	305	216
	<hr/>	<hr/>
<b>Total</b>	<b>6,726</b>	<b>456</b>
	<hr/>	<hr/>

(b) As of September 30, 2016, corresponds mainly to insurance payments of properties of the Company.

(c) Corresponds mainly to prepaid taxes over properties of the Company and other municipal taxes.

Notes to the interim consolidated financial statements (continued)

**10. Recoverable taxes**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Tax credit for value-added-tax (b)	74,156	93,981
Funds held in Banco de la Nación (c)	10,107	17,094
Income tax payment	3,338	5,402
	<hr/>	<hr/>
<b>Total</b>	<b>87,601</b>	<b>116,477</b>
	<hr/>	<hr/>
<b>By term:</b>		
Current	28,808	38,868
Non-current	58,793	77,609
	<hr/>	<hr/>
	<b>87,601</b>	<b>116,477</b>
	<hr/>	<hr/>

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

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

Notes to the interim consolidated financial statements (continued)

**11. Facilities, furniture and equipment, net**

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

	Facilities S/(000)	Furniture and fixtures S/(000)	Transport units S/(000)	Equipment miscellaneous S/(000)	Work in progress S/(000)	Total S/(000)
<b>Cost</b>						
<b>Balance as of January 1, 2016</b>	5,424	4,258	443	6,151	63	16,339
Additions	-	7	-	723	19	749
Disposals	49	-	-	(164)	(82)	(197)
<b>Balance as of September 30, 2016</b>	<u>5,473</u>	<u>4,265</u>	<u>443</u>	<u>6,710</u>	<u>-</u>	<u>16,891</u>
<b>Accumulated depreciation</b>						
<b>Balance as of January 1, 2016</b>	900	1,597	149	2,652	-	5,298
Depreciation of the period	811	513	66	1,033	-	2,423
Disposals	-	-	-	(164)	-	(164)
<b>Balance as of September 30, 2016</b>	<u>1,711</u>	<u>2,110</u>	<u>215</u>	<u>3,521</u>	<u>-</u>	<u>7,557</u>
<b>Net cost as of September 30, 2016</b>	<u>3,762</u>	<u>2,155</u>	<u>228</u>	<u>3,189</u>	<u>-</u>	<u>9,334</u>
<b>Net cost as of December 31, 2015</b>	<u>4,524</u>	<u>2,661</u>	<u>294</u>	<u>3,499</u>	<u>63</u>	<u>11,041</u>

(b) As of September 30, 2016 and December 31, 2015, there are no pledges or guarantees provided to third parties on the facilities, furniture and equipment of InRetail Real Estate.

(c) As of September 30, 2016 and 2015, InRetail Real Estate's Management performed an assessment of the facilities, furniture and equipment, and has not found any impairment indicator on said assets. In its opinion, the book value of the facilities, furniture and equipment is recoverable with the income generated by InRetail Real Estate.



## Notes to the interim consolidated financial statements (continued)

### 12. Investment properties

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

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
Real Plaza Salaverry shopping mall(i)	408,710	407,754
Real Plaza Chiclayo shopping mall	253,471	250,444
Real Plaza Cuzco shopping mall (i)	250,489	243,706
Real Plaza Centro Civico shopping mall (i)	235,094	233,572
Real Plaza Primavera shopping mall	221,440	208,429
Real Plaza Piura shopping mall	218,243	203,971
Real Plaza Trujillo shopping mall	181,475	164,109
Real Plaza Huancayo shopping mall (i)	163,657	162,179
Real Plaza Puruchuco project	130,673	125,666
Real Plaza Huánuco shopping mall (i)	120,678	119,301
Real Plaza Cajamarca shopping mall	112,476	112,589
Real Plaza Santa Clara - Altamirano shopping mall	108,584	106,890
Real Plaza Arequipa shopping mall (i)	109,863	90,069
Real Plaza Pro shopping mall	94,335	92,633
Real Plaza Juliaca shopping mall (i)	90,214	90,411
Real Plaza Chorrillos shopping mall	71,980	67,566
Real Plaza Nuevo Chimbote shopping mall	24,823	23,616
Jr. de la Unión stores	21,990	21,713
Others	221,390	200,883
	3,039,585	2,925,501

(i) For the construction of these shopping malls and properties, surface rights contracts were subscribed with the Arzobispado de Cuzco (on land in Cusco "San Antonio"), Municipalidad provincial de Huánuco (on land of "Real Plaza Huánuco" shopping mall), Oficina de Normalización Provisional – ONP (Centro Cívico), Inmobiliaria Pazos S.A.C. (La Curva), Gobierno Regional de Moquegua (Moquegua), Ferrovías Central Andina S.A. (Huancayo); the Association denominated "Religiosas del Sagrado Corazón de Jesús" (Arequipa), Ferrocarril Trasandino S.A. (Juliaca), and the Marina de Guerra del Perú (Salaverry). These contracts have terms for periods between 20 to 70 years.

(ii) Correspond to lands on which real estate projects will be developed, mainly shopping malls branded "Real Plaza". In the opinion of InRetail Real Estate's Management the book values of these investment properties do not differ significantly from their fair values as of September 30, 2016 and as of December 31, 2015 since Management has been managing the related licenses for their development.

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

Notes to the interim consolidated financial statements (continued)

(b) The movement of this caption for the nine-month period ended as of September 30, 2016 and 2015 is as follows:

	2016 S/(000)	2015 S/(000)
<b>Balance at the beginning of the year</b>	2,925,501	2,719,800
Additions	108,354	97,412
Disposal	(2,771)	-
Fair value adjustment	8,501	18,275
<b>Balance at the end of the period</b>	3,039,585	2,835,487
<b>Balance as of December 31, 2015</b>		2,925,501

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

**13. Derivative financial instrument**

As of September 30, 2016 and December 31, 2015, this item comprises of a principal Call Spread contract designated to hedge cash flows and recorded at its fair value. The detail of this operation is as follows:

Counterparty	Nominal value US\$(000)	Due	Pay fix at %	Book value of the hedged item	Fair value 2016 S/(000)	Fair value 2015 S/(000)
J.P. Morgan	200,000	jul-21	1.84	680,600	61,410	62,498
					61,410	62,498
					61,410	62,498

The financial instrument covers 57 percent of the exposure to foreign currency risk arising from the international bond issue of July 2014, see note 16 (b). This Call Spread covers variations in the exchange rate between S/3.225 and S/3.750 per US\$1.00 and the price of the premium was funded in installments, generating a liability for the same. See note 16.

Notes to the interim consolidated financial statements (continued)

**14. Trade payables**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Bills payable to third parties (b)	14,631	13,550
Provision of services unbilled (c)	6,896	17,222
<b>Total</b>	<u>21,527</u>	<u>30,772</u>

(b) As of September 30, 2016 and December 31, 2015, trade payables mainly comprise the liabilities with contractors for the construction works and/or refurbishing of shopping malls. Bills payable are denominated in Soles and US Dollars, do not accrue interests and their maturities are in the current period.

(c) Correspond to provisions for services received but unbilled by suppliers, mainly from services provided by construction companies in the last quarter of the period. In the opinion of InRetail Real Estate's Management, provisions are enough to fulfill the liabilities once they are billed.

**15. Other liabilities**

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
<b>By type:</b>		
Deferred income (b )	33,866	34,895
Interests payable (c )	17,888	36,750
Deposits from third parties (d )	2,809	2,817
Vacations	535	686
Workers' profit sharing	2,714	2,997
Others payable	25,453	8,605
<b>Total</b>	<u>83,265</u>	<u>86,750</u>
<b>By term:</b>		
Current	49,399	57,320
Non-current	33,866	29,430
	<u>83,265</u>	<u>86,750</u>

Notes to the interim consolidated financial statements (continued)

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

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Key money (b.1)	19,445	21,032
Advanced rents (b.2)	3,471	8,870
Others	10,950	4,993
<b>Total</b>	<u>33,866</u>	<u>34,895</u>

- (b.1) As of September 30, 2016 and December 31, 2015, corresponds to the payment of key money from several tenants that operate in the Real Plaza shopping malls.
- (b.2) As of September 30, 2016 and December 31, 2015, corresponds mainly to advanced rents by Cineplex S.A. (a related entity) and Ripley (third-party entity) for the premises it operates in the shopping malls Real Plaza Pro and Real Plaza Salaverry, respectively.
- (c) As of September 30, 2016 and December 31, 2015, corresponds mainly to interests payable originated from the private offering of "Senior Notes Unsecured ", maturing in 2021. Interest on the notes will accrue at a rate of 6.50% percent annual and will be semi-annually in arrears on January and July of each year.
- (d) As of September 30, 2016 and December 31, 2015 it mainly corresponds to deposits from the tenants of the Real Plaza shopping malls Arequipa, Primavera, Pro, Santa Clara, Huancayo, Huánuco, Trujillo, Cajamarca, Juliaca, Salaverry, Centro Cívico and Nuevo Chimbote.

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

Notes to the interim consolidated financial statements (continued)

**16. Financial obligations**

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

Type of Obligation	Original		Maturity final	Original Amount		Total		Current		Non-current	
	Currency	Interest Rate %		September		September 30, 2016	2015	September		September	
				US\$ (000)	S/(000)			S/(000)	S/(000)	S/(000)	S/(000)
<b>Bonds issuance (b)</b>											
Foreign currency bonds issuance	USD	6.500	2021	350,000	-	944,950	938,518	-	-	944,950	938,518
Local currency bonds issuance	PEN	7.875	2034	-	141,000	135,310	80,365	-	-	135,310	80,365
				<u>350,000</u>	<u>141,000</u>	<u>1,080,260</u>	<u>1,018,883</u>	<u>-</u>	<u>-</u>	<u>1,080,260</u>	<u>1,018,883</u>
<b>Leasings</b>											
<b>Related entities</b>											
Banco Internacional del Perú-Interbank (c)	PEN	8.900	2026	-	1,000	-	928	-	77	-	851
Banco Internacional del Perú-Interbank	USD	6.450	2017	113	-	63	184	63	124	-	60
<b>Non-related entities</b>											
Banco de Crédito del Perú (d)	PEN	8.020	2019	-	54,748	14,695	17,357	4,257	4,046	10,438	13,311
Banco de Crédito del Perú (e)	PEN	7.970	2023	-	32,926	26,785	28,876	2,995	2,819	23,790	26,057
Banco de Crédito del Perú (f)	PEN	8.060	2024	-	20,726	17,224	18,412	1,704	1,602	15,520	16,810
IBM Perú SAC	USD	Between 1.820 and 4.930	2017	672	-	738	1,326	738	723	-	603
Hewlett Packard S.A.	USD	Between 1.920 and 7.450	2017	189	-	229	387	229	186	-	201
				<u>1,177</u>	<u>109,400</u>	<u>59,734</u>	<u>67,470</u>	<u>9,986</u>	<u>9,577</u>	<u>49,748</u>	<u>57,893</u>
<b>Promissory notes and loans</b>											
<b>Non-related entities</b>											
JP. Morgan	USD	1.840	2021	18,111	-	52,605	61,816	9,426	9,046	43,179	52,770
Scotiabank Perú S.A.A. (g)	PEN	6.700	2019	-	100,000	80,713	99,200	24,822	24,640	55,891	74,560
CSI Renting	USD	Between 4.640 and 4.730	2018	70	-	118	179	118	79	-	100
				<u>18,181</u>	<u>100,408</u>	<u>133,436</u>	<u>161,195</u>	<u>34,366</u>	<u>33,765</u>	<u>99,070</u>	<u>127,430</u>
<b>Total</b>				<u>369,358</u>	<u>350,808</u>	<u>1,273,430</u>	<u>1,247,548</u>	<u>44,352</u>	<u>43,342</u>	<u>1,229,078</u>	<u>1,204,206</u>

## Notes to the interim consolidated financial statements (continued)

- (b) As of July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for US\$350,000,000 equivalent to approximately S/1,191,050,000 as of September 30, 2016 (equivalent to approximately S/1,194,550,000 as of December 31, 2015), due in July 2021, at a 6.50 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 7.806 percent, after considering the respective up-front fees that amounted to US\$21,505,000 equivalent to approximately S/73,180,000 as of September 30, 2016 (US\$24,203,000 equivalent to approximately S/ 82,604,000 as of December 31, 2015). Additionally, as of September 30, 2016 the balance is presented net of US\$50,814,000 equivalent to S/172,920,000 (US\$50,814,000 equivalent to S/173,428,000 as of December 31 2015), corresponding to the notes of this issuance held by InRetail Shopping Malls. As of September 30, 2016 and December 31, 2015 the balance of this loan is S/944,950,000 and S/938,518,000, respectively.

Also, in July 2014, InRetail Real Estate Corp. issued, through In Retail Shopping Malls, an offering in the local market and abroad of "Senior Notes Unsecured" for S/141,000,000, due in July 2034, at a 7.875 percent nominal interest rate. This borrowing was recorded in the consolidated financial statement at amortized cost to an effective interest rate of 8.012 percent, after considering the respective up-front fees that amounted to S/1,690,000 as of September 30, 2016 ( S/ 1,635,000 as of December 31, 2015). Additionally, as of September 30, 2016, the balance is presented net of S/4,000,000 (S/59,000,000 as of December 31, 2015) corresponding to the notes of this issuance held by InRetail Shopping Mall. As of September 30, 2016 and December 31, 2015 the balance of this loan is S/135,310,000 and S/80,365,000, respectively.

The proceeds of these financings were used for the purchase of property, investments in new real estate projects, debt restructuring and payment of fees and expenses related to such issuance.

As of September 30, 2016 InRetail Shopping Malls complied with certain obligations and restrictive clauses that are referred to the compliance with financial ratios. Amongst the main obligations are presented as follows:

### Local currency debt:

- The Parent and its restricted subsidiaries will maintain at all times unencumbered assets of not less than 150 percent of the aggregate principal amount of the consolidated unsecured indebtedness of the parent and it is restricted.
- Leverage Test: The aggregate principal amount of all outstanding indebtedness is not greater than 60 percent of the sum of total assets.
- Secured Debt Test: the aggregate principal amount of all outstanding secured indebtedness is not greater than 40 percent of the sum of total assets.
- Debt Service Test: The ratio of consolidated adjusted EBITDA to consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters ending with the Latest Completed Quarter is greater than 1.5.

## Notes to the interim consolidated financial statements (continued)

### Foreign currency debt:

- The Parent and its restricted subsidiaries will maintain at all times unencumbered assets of not less than 150 percent of the aggregate principal amount of the consolidated unsecured indebtedness of the parent and its restricted.
- Leverage Test: The aggregate principal amount of all outstanding indebtedness is not greater than 60 percent of the sum of total assets.
- Secured Debt Test: the aggregate principal amount of all outstanding secured indebtedness is not greater than 30 percent of the sum of total assets.
- Debt Service Test: The ratio of consolidated adjusted EBITDA to consolidated Interest Expense for the period consisting of the four consecutive fiscal quarters ending with the Latest Completed Quarter is greater than 2.0.

In the opinion of InRetail Real Estate's Management, these obligations have been complied satisfactorily and are within the agreed limits as of September 30, 2016 and December 31, 2015.

- (c) Inmobiliaria Puerta del Sol S.A. (IPS) entered into a leaseback agreement with Banco Internacional del Perú S.A.A. – Interbank to build the building where the Real Plaza San Antonio shopping malls operate. This leaseback was agreed for a former amount of S/ 108,300,000, with a term of 144 months and a grace period of 6 months. During the first semester of 2014, the bank disbursed the total amount of the debt. However on September 2014 the Company made a prepayment of S/ 107,300,000 and the debt balance of S/1,000,000 was fully paid in September 2016.

In order to secure the payment of this funding, IPS subscribed a cash flow trust contract with La Fiduciaria S.A., through which the former binds to channel all the future cash flows from the credit rights derived, generated or caused, as consequence of each and every asset comprised in the Real Plaza San Antonio project to the escrow accounts so that these assets serve as security for the guaranteed obligations.

- (d) Corresponds to a leasing agreement with Banco de Crédito del Perú (hereinafter BCP), for an approximate amount of S/54,748,000, over a term of 120 months, for the properties Interseguro sold through a landlord lease contract. This loan was used mainly for the acquisition of the property where Real Plaza Chiclayo shopping mall is located. BCP put the leased buildings in favor of Interproperties Peru, since it made the payment of an initial installment amounting to S/ 18,748,000 on October 28, 2009, in accordance to the leasing contract.

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

## Notes to the interim consolidated financial statements (continued)

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

- (e) During 2012, Interproperties Holding II (SPE), decided to enlarge Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2A"), for which on December 26, 2012, signed an addendum to the Framework Contract with BCP, which committed to finance the project up to US\$12,500,000. As of September 30, 2016 and 2015, it is already operating; therefore, Interproperties Holding II has recorded the corresponding liabilities at such dates.
- (f) During 2013, Interproperties Holding II (SPE) continued the enlargement of Real Plaza Chiclayo shopping mall (hereinafter "Enlargement of Section 2B"), for which it signed an addendum to the leasing agreement with BCP, which committed to finance the project for up to US\$7,500,000. As of September 30, 2016 and December 31, 2015, the expansion of Section 2B is under construction; however, Interproperties Holding II (SPE) has recorded the corresponding liabilities at such dates.
- (g) Corresponds to a loan agreement with the Scotiabank Perú S.A.A. by amount of S/ 100,000,000, for a period of four years, payable in quarterly installments. This loan was used to repay debt and other corporate purposes.

This obligation was recorded in the consolidated financial statement as amortized cost at effective annual interest rate of 7.002 percent per annum after considering the respective initial charge of approximately S/537,000 in September 30, 2016 (S/800,000 in December 31,2015).

As of September 30, 2016, InRetail Real Estate amortized the debt Scotiabank Peru S.A.A. the value of S/18,750,000.

- (h) Financial obligations are payable as follows:

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
2016	8,621	43,342
2017	43,746	44,275
2018	44,567	45,095
2019	45,665	45,203
2020 onwards	1,130,831	1,069,633
<b>Total</b>	<u>1,273,430</u>	<u>1,247,548</u>



Notes to the interim consolidated financial statements (continued)

**17. Income tax**

- (a) The Deferred Income Tax assets and liabilities presented in the consolidated statements as of September 30, 2016 and December 31, 2015 is detailed as follows:

<b>Statements of financial position</b>	<b>Deferred liability, net</b>	
	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	S/(000)	S/(000)
Deferred income tax asset	798	798
Deferred income tax liability	<u>(19,182)</u>	<u>(17,717)</u>
Deferred income tax liability, net	<u>(18,384)</u>	<u>(16,919)</u>

  

<b>Statements of comprehensive income</b>	<b>Income tax for the nine-month periods ended September 30, 2016 and 2015</b>	
	<b>2016</b>	<b>2015</b>
	S/(000)	S/(000)
Current	(38,324)	(2,847)
Deferred	<u>(1,466)</u>	<u>(17,439)</u>
	<u>(39,790)</u>	<u>(20,286)</u>

**18. Commitments**

As of September 30, 2016 and December 31, 2015, corresponds to guarantee letters in favor of third parties for approximately S/20,798,000 and S/21,447,000, respectively, which guarantee the compliance of obligations from contractual agreements related to the real estate projects of Interproperties Holding and Interproperties Holding II.

**19. Equity**

- (a) Capital stock –

As of September 30, 2016 and December 31, 2015, the capital stock of InRetail Real Estate Corp. amounts to S/1,475,706,000 approximately, represented by 568,201,039 shares, issued at a nominal value of US\$ 1.00 each.

- (b) Earnings per share –

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

Notes to the interim consolidated financial statements (continued)

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

	<b>Ordinary shares</b>		
	<b>Outstanding shares</b>	<b>Effective days until period-end</b>	<b>Weighted average of shares</b>
Number as of January 01, 2015	568,201,039	270	568,201,039
Number as of September 30, 2015	568,201,039		568,201,039
Number as of January 01, 2016	568,201,039	270	568,201,039
Number as of September 30, 2016	568,201,039		568,201,039
	<b>For the nine-month-periods ended September 30, 2016</b>		
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	92,055,000	568,201,039	0.1620
	<b>For the nine-month-periods ended September 30, 2015</b>		
	<b>Net income (numerator) S/</b>	<b>Shares (denominator)</b>	<b>Earnings per share S/</b>
Basic and diluted earnings per share	50,938,000	568,201,039	0.0896

Notes to the interim consolidated financial statements (continued)

**20. Income from real estate service**

- (a) The composition of the balance for the nine-month period ended as of September 30, 2016 and 2015 is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Rental income</b>		
Rental income (b)	213,038	198,891
Rent of space for publicity	9,873	8,882
Rendering of services	7,141	5,622
	<hr/>	<hr/>
	230,052	213,395
	<hr/>	<hr/>
<b>Income from management services</b>		
Common expenses (c)	46,107	44,085
Electricity and water (d)	36,392	33,535
Promotion and advertisement (e)	11,865	11,230
Advisory and supervision	468	5,056
Parking	6,140	-
Management services	755	1,565
Negotiations of land and buildings	-	2,596
Others	1,362	5,814
	<hr/>	<hr/>
	103,089	103,881
	<hr/>	<hr/>

- (b) As of September 30, 2016 and 2015, corresponds to rental income from the economic exploitation of the "Real Plaza" Shopping Malls.

The composition of the rental income is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
Fixed rental income	183,956	172,001
Variable rental income	29,082	26,890
	<hr/>	<hr/>
	213,038	198,891
	<hr/>	<hr/>

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

Notes to the interim consolidated financial statements (continued)

**21. Operating costs**

(a) The composition of this caption for the nine-month period ended as of September 30, 2016 and 2015 is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Cost of rental income</b>		
Property tax and duties	8,892	7,904
Landlord leases (b)	11,103	6,739
Property insurance costs	2,921	2,810
Others	654	547
	<u>23,570</u>	<u>18,000</u>
<b>Cost related to income from management services</b>		
Electricity and water	36,409	33,519
Personnel expenses	7,234	12,251
Safety services	4,970	5,065
Cleaning	6,650	5,908
Advertising and marketing	12,048	10,589
Maintenance and administration of parking lot	9,315	8,129
Other costs	1,719	3,552
	<u>78,345</u>	<u>79,013</u>

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

**22. Selling and administrative expenses**

(a) The composition of this caption for the nine-month period ended as of September 30, 2016 and 2015 is presented below:

	<b>2016</b> S/.(000)	<b>2015</b> S/.(000)
Administrative expenses	18,515	18,505
Selling expenses	<u>4,836</u>	<u>6,192</u>
	<u>23,351</u>	<u>24,697</u>

Notes to the interim consolidated financial statements (continued)

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

	<b>2016</b>		
	<b>Selling expenses</b>	<b>Administrative expenses</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
Personnel expenses	4,208	7,170	11,378
Depreciation	-	2,424	2,424
Amortization	-	180	180
Key money amortization	705	6,385	7,090
Services provided by third parties, Note 7(e)	(1,087)	-	(1,087)
Allowance for doubtful accounts, Note 7(e)	978	-	978
Other charges	32	2,356	2,388
	<u>4,836</u>	<u>18,515</u>	<u>23,351</u>

	<b>2015</b>		
	<b>Selling expenses</b>	<b>Administrative expenses</b>	<b>Total</b>
	S/(000)	S/(000)	S/(000)
Personnel expenses	3,815	10,608	14,423
Depreciation	-	1,906	1,906
Amortization	-	75	75
Services provided by third parties	-	5,340	5,340
Allowance for doubtful accounts, net	1,361	-	1,361
Other charges	1,016	576	1,592
	<u>6,192</u>	<u>18,505</u>	<u>24,697</u>

Notes to the interim consolidated financial statements (continued)

**23. Financial income and expenses**

The composition of this caption for the nine-month period ended as of September 30, 2016 and 2015 is presented below:

	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Income</b>		
Gain from valuation of financial instruments	303	-
Interest on deposits	639	555
Interest from granted loans	592	2,396
Others	2,261	608
	<u>3,795</u>	<u>3,559</u>
	<b>2016</b> S/(000)	<b>2015</b> S/(000)
<b>Expenses</b>		
Bond interest expenses	57,471	58,504
Derivative financial instruments expenses	9,636	2,643
Debt structuring expenses	9,429	7,812
Interest from long-term loans	4,632	-
Interest from leasing	3,775	4,226
Others	4,550	6,944
	<u>89,493</u>	<u>80,129</u>

**24. Tax situation**

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

Entities and individuals not domiciled in Peru are subject to retention of an additional tax on dividends received. In this regard, attention to Law 30296, published on December 31, 2014 and effective from January 1, 2015, the additional tax on dividend income generated is as follows:

- 4.1 percent of the profits generated until December 31, 2014
- For the profits generated from 2015, whose distribution is made after that date, shall be:
  - . For 2015 and 2016 will be 6.8 percent.
  - . For 2017 and 2018 will be 8.0 percent.
  - . For 2019 onwards will be 9.3 percent.

(b) Real Plaza is domiciled in Perú and is subject to the Peruvian tax system and, in compliance with current Peruvian legislation calculate their income tax on the basis of their separate financial statements. As of September 30, 2016 and December 31, 2015, the statutory income tax rate was 28 percent on tax payable income, after calculating the employees profit sharing, which according to prevailing standards is computed with a rate between 5 to 8 percent.

## Notes to the interim consolidated financial statements (continued)

According to Law N°30296 the tax rate applicable on taxable income, after deducting the of workers profit sharing is as follows:

- Exercise 2016: 28 percent
  - Exercise 2017 and 2018: 27 percent
  - Exercise 2019 onward: 26 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) In first place, the market value of the shares of Peruvian society must represent 50 percent or more of the market value of non-domiciled, in any period of twelve months and,
  - (ii) In second place, 10 percent or more of the shares of non-resident must be sold in any twelve month period;
- (d) Transactions entered into between related parties and/or with tax heaven residents fall into the scope of the Peruvian Transfer Pricing rules. Such rules are based on the application of the arm's length principle, as understood by the OECD. It is important to mention that Transfer Pricing rules are only applicable for Income Tax purposes, and adjustments are allowed under certain conditions only. Based on the analysis of operations of InRetail, its Management and legal advisors believe that the implementation of these standards does not generate any significant contingencies for InRetail Real Estate as of September 30, 2016 and 2015.
- (e) The Peruvian Tax Authority is legally entitled to perform tax audit procedures on local taxpayers for up to four years subsequent to the year of the presentation of the tax return. The Tax Authority is entitled to challenge the Income Tax calculation performed by such taxpayers. Following are the years subject to review by the tax authority of the Subsidiaries of InRetail Real estate Corp. incorporated in Perú:

	<b>Income Tax</b>	<b>Value added tax</b>
Real Plaza S.R.L.	From 2014 to 2015	From 2010 to 2015

In accordance with Peruvian law, InRetail Shopping Mall, Interproperties Holding and Interproperties Holding II, Special Purpose Entities, are not considered to be taxpayers due to their conditions as trusts but they attribute their obtained income, net losses and tax credits on their foreign source income to the holders of their certificates of participation. Therefore, to reflect this obligation, the Company has provisioned 30 percent of long term income tax over the profits earned to date. As of September 30, 2016 and December 31, 2015, the accrued income tax amounted to S /151,796,000 and S / 113,342,000, respectively.

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

In the opinion of the Management of InRetail Real Estate and of its legal advisors, any subsequent additional settlement of taxes would not be significant for the consolidated financial statements as of September 30, 2016 and December 31, 2015.

Notes to the interim consolidated financial statements (continued)

**25. Transactions with related companies**

- (a) As a result of transactions with related parties, InRetail Real Estate presents the following balances in the consolidated statements of financial position as of September 30, 2016 and December 31, 2015:

	S/(000)	S/(000)
<b>Receivables</b>		
Intercorp Perú Ltd	1,542	2,652
Tiendas Peruanas S.A.	7,165	8,085
Home Centers Peruanos S.A.	1,908	3,160
Cineplex S.A.	3,666	4,360
Bembos	6,016	3,209
Supermercados Peruanos S.A.	1,354	6,788
Eckerd Perú S.A.	228	240
Banco Internacional del Perú S.A.A.- Interbank (c)	417	954
InRetail Management S.R.L.	5,205	1,915
Others	9,600	10,927
	<u>37,102</u>	<u>42,290</u>

	As of September 30, 2016 S/(000)	As of December 31, 2015 S/(000)
<b>Payables</b>		
Intercorp Perú Ltd	3	-
InRetail Management S.R.L.	75	-
Supermercados Peruanos S.A.	14	1,606
Tiendas Peruanas S.A.	3,231	1,900
Interseguro Compañía de Seguros S.A.	6	-
Home Centers Peruanos S.A.	53	-
Others	370	645
	<u>3,753</u>	<u>4,151</u>

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

- (b) As of September 30, 2016 and December 31, 2015, InRetail Real Estate holds balances with its related entity Banco Internacional del Perú S.A.A. – Interbank in the cash and cash equivalent caption for an amount of S/28,179,000 and S/29,087,000, respectively.



## Notes to the interim consolidated financial statements (continued)

- (c) Transactions with related companies have been performed under normal market conditions. The taxes that these transactions generated, as well as the calculation bases for their determination, are the usual ones in the industry and they are settled in accordance with the current tax regulations.

### 26. Financial risks management

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

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

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

#### (a) Market risk –

Is the risk that the fair values of the future cash flows of a financial instrument fluctuate due to changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and investments in shares risk. In the case of InRetail Real Estate, the financial instruments affected by market risks include loans, which are exposed to currency risk and interest rate risk.

The sensitivity analysis shown in the following section relates to the position as of September 30, 2016 and December 31, 2015. The sensitivity analysis has been prepared considering that the total amount of the net debt and the proportion of financial instruments in foreign currency is constant.

#### (i) Interest rate risk –

It is the risk that the fair values or future cash flows of a financial instrument fluctuate due to changes in market interest rates. InRetail Real Estate manages its interest rate risk through the obtaining of debt with fixed interest rate. As of September 30, 2016 and December 31, 2015, InRetail Real Estate does not maintain debts at variable rate, which would be exposed to the risk of change in the interest rate.

#### (ii) Exchange rate risk –

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

## Notes to the interim consolidated financial statements (continued)

As of September 30, 2016 and December 31, 2015, assets and liabilities by currency were the following (expressed in Thousands US Dollars):

	<b>As of September 30, 2016</b>	<b>As of December 31, 2015</b>
	US\$(000)	US\$(000)
<b>Assets</b>		
Cash and cash equivalents	7,826	2,362
Investment at fair value through profit or loss	-	767
Available-for-sale investments	25,627	17,571
Trade receivables, net	7,876	1,053
Other receivables, net	3,912	1,267
Accounts receivable from related parties	2,802	2,848
	48,043	25,868
<b>Liability</b>		
Trade payables	5,450	337
Other liabilities	7,270	9,974
Accounts payable to related parties	7,133	452
Financial obligations	297,277	283,559
	317,130	294,322
Call Spread	200,000	200,000
<b>Net liability position</b>	(69,087)	(68,454)

As of September 30, 2016 and December 31, 2015, InRetail Real Estate and its Subsidiaries have decided to reduce its exchange rate risk by entering into a hedging operation through a Call Spread written over its "Senior Notes Unsecured", which is considered an effective hedging instrument. The Call Spread is written over a nominal amount of US\$200,000,000, protects it from exchange rate fluctuations between S/3.225 and S/3.750 and will be effective until maturity of the "Senior Notes Unsecured". The net position in the derivatives related to the currency Call Spread agreement corresponds to exchange rate operations (Soles exchanged for US Dollars) with notional of US\$200,000,000. See further detail in Note 13 y 16.

Transactions in foreign currency are performed at free market exchange rates. As of September 30, 2016, the market weighted average exchange rate for transactions in US dollars was S/3.397 per US\$1.00 bid and S/3.403 per US\$1.00 ask (S/3.408 per US\$1.00 bid and S/3.413 per US\$1.00 ask as of December 31, 2015).

For the nine-month period ended as of September 30, 2016, InRetail Real Estate incurred into a net gain for exchange difference of approximately S/731,000 (loss of S/64,541,000 as of September 30, 2015), which is presented in the caption "Exchange difference, net" the consolidated statements of income and other comprehensive income.

## Notes to the interim consolidated financial statements (continued)

### (b) Credit risk –

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

#### Credit risk related to accounts receivable –

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

#### Credit risk related to financial instruments and bank deposits –

The credit risk of bank balances is managed by Management in accordance with the policies of InRetail Real Estate. The investments of cash surpluses are performed through a first-level related financial institution. The maximum exposure to credit risk as of September 30, 2016 and December 31, 2015, is the book value of the balances of cash and cash equivalent.

### (c) Liquidity risk –

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

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

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

## 27. Fair value of financial instruments –

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

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

## Notes to the interim consolidated financial statements (continued)

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

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